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THE DYNAMICS OF COOPERATIVE GAMES

Jeffrey H. Grotte

Cornell University

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TECHNICAL REPORT

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by

Jeffrey H. Grotte

Cornell University
Ithaca, New York
14850

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Introduction

It is of great interest to the study of cooperative game theory to develop models whereby the dynamics of negotiation among the players can be investigated. One approach to this problem concentrates on the use of discrete transfer schemes to study how players might arrive at a desirable outcome. A parallel approach employs systems of differential equations whose solutions represent a continuous transfer of payoff over time. It is the intention of this work to further research in this latter area.

The advantages of such an approach are multifold. Not only does it enable us to view game theory in terms of the actions of individuals or coalitions, but it also enables us to characterize solution concepts in terms of associated "behavior". Having done so, it is possible to ask: which points of a solution concept are attainable, given a certain set of actions on the part of the players; which points are stable and in what sense; which are stable only from certain directions; how a final point could be reached over time; and so forth.

In 1968, Stearns [27] exhibited a sequence of discrete transfers of payoff among the players which converged to points of the Kernel of Davis and Maschler [8]. In 1972, Billera [3] smoothed these transfer sequences to obtain a system of differential equations whose solutions represented a continuous transfer of payoff and which also converged to the Kernel. In 1974, Wang [30] showed that a modification of the relaxation method of Agmon [1] could provide a discrete transfer sequence which converged to the core [11] of a game.

In this paper, we exhibit several systems of differential equations which represent possible behavior patterns for the players. The solutions of these systems are shown to converge to a number of solution concepts, among them the core, the "two-center" of Spinetto [26], and the Shapley value [23]. This is accomplished by defining for games classes of optimal "centroids" and "nuclei" which fall into the class of "pre-emptive nuclei" as defined by Charnes and Kortanek [5], since they minimize certain convex functions. These centroids and nuclei are the critical points of the various systems of differential equations and it is shown under what conditions the centroids and nuclei coincide with classical solution concepts.

This work is divided into four chapters. Chapter I establishes most of the mathematical foundation for the rest of the paper and also provides some geometrical insight into the processes discussed. Chapter II is an application of these results to cooperative games with sidepayments and also proves some results peculiar to this formulation. Chapter III is a somewhat different approach to cooperative games wherein coalitions bargain through an external referee. Some attempt is made to study games without sidepayments. Finally, Chapter IV is a comparison of these systems with the dynamic approach of Billera and also contains some questions of interest.

I. Systems of Differential Equations with Polyhedral Stable Sets

§1. Geometric Considerations

Let $\{a^i\}$ $i = 1, \dots, m$ be a fixed set of unit vectors in R^n where R^n is Euclidean n -space. For $b \in R^m$ with components $\{b_1, b_2, \dots, b_m\}$ and $x \in R^n$ define the functions

$$g^i(x, b) = \langle a^i, x \rangle + b_i.$$

Here, \langle, \rangle is the standard inner product on R^n , and we will also denote by $\|\cdot\|$ the Euclidean norm on the appropriate space. Also define

$$P^i(b) = \{x | g^i(x, b) = 0\} \quad i = 1, \dots, m$$

$$\text{core}(b) = \{x | g^i(x, b) \leq 0, \quad i = 1, \dots, m\}.$$

Each $P^i(b)$ is a hyperplane in R^n while $\text{core}(b)$, if nonempty, is a possibly unbounded polyhedron in R^n since it is the intersection of half-spaces. Here, as in the rest of this work, "polyhedron" will be synonymous with "convex polyhedron." The following two facts are elementary results from analytic geometry:

- a) The normal (perpendicular) Euclidean distance from any point $x \in R^n$ to $P^i(b)$ is $|g^i(x, b)|$ (where $|\cdot|$ is absolute value).
- b) The normal vector from any point $x \in R^n$ to a point in $P^i(b)$ is $-g^i(x, b)a^i$.

Let $R_+^m = \{k \in R^m | k_i > 0, \quad i = 1, \dots, m\}$, i.e., R_+^m is the strictly positive orthant in R^m . For $k \in R_+^m$, consider the following system of

differential equations:

$$(I.a) \quad \dot{x} = D(x,b,k) \equiv - \sum_{i=1}^m k_i [g^i(x,b)]^+ a^i$$

$$\text{where } \dot{x} = \frac{dx}{dt}$$

$$\text{and } [\cdot]^+ = \max\{\cdot, 0\}.$$

Proposition I.1: For any $b \in \mathbb{R}^m$, $k \in \mathbb{R}_+^m$, $x_0 \in \mathbb{R}^n$, there exists a unique solution $\gamma(t, x_0, b, k)$ to (I.a), continuous in t for $t \in (-\infty, \infty)$ and such that $\gamma(0, x_0, b, k) = x_0$.

Proof: This is an immediate consequence of the fact that $D(x,b,k)$ is continuous and locally Lipschitz in x . The reader is referred to Coddington and Levinson [6], or Hale [12] as references for results on systems of differential equations. #

Geometrically, one can imagine the half-space

$$\{x | g^1(x,b) > 0\}$$

to be the "wrong side" of hyperplane $P^1(b)$. All other points will constitute the "right side." At any point $x \in \mathbb{R}^n$, consider all those i such that x is on the wrong side of $P^i(b)$. Let us call such a $P^i(b)$ an "offended" hyperplane. Take a positive linear combination of the normal vectors from x to the offended hyperplanes to obtain

$$- \sum_{i=1}^m k_i [g^i(x,b)]^+ a^i.$$

Thus, the solutions of system (I.a) tend to move toward the offended hyperplanes as t increases, ignoring the others, so it might be

expected that, along solutions, the distance to offended hyperplanes would tend to decrease. This notion will be made rigorous and proven later.

§2. Centroids

With $\{a^i\}$, b , and k as above, we can define $C(b,k)$, the set of " k -centroids of b (with vectors $\{a^i\})$ " to be

$$\{x \in \mathbb{R}^n \mid \phi(x,b,k) = \inf_{y \in \mathbb{R}^n} \phi(y,b,k)\}$$

where

$$\phi(y,b,k) = \sum_{i=1}^m k_i \left([g^i(y,b)]^+ \right)^2.$$

Observe that (1) if $\text{core}(b)$ is nonempty, then $\text{core}(b)$ is precisely $C(b,k)$, and (2) $C(b,k)$ is, in this case, independent of k . In general, however, $C(b,k)$ is not independent of k .

Proposition I.2: For any $b \in \mathbb{R}^m$, and $k \in \mathbb{R}_+^m$, $C(b,k) \neq \emptyset$.

Proof: $\phi(x,b,k) \geq 0$ for all $x \in \mathbb{R}^m$, so $\inf_x \phi(x,b,k)$ exists.

Let $w = \inf_x \phi(x,b,k)$. There must exist a sequence

$\{x_n \mid n = 1, 2, \dots\}$ such that

$$\phi(x_n, b, k) < \phi(x_{n-1}, b, k) \text{ for } n = 1, 2, \dots \text{ and}$$

$$\lim_{n \rightarrow \infty} \phi(x_n, b, k) = w.$$

If $\{\|x_n\| \mid n = 1, 2, \dots\}$ is bounded for all n , then $\{x_n\}$

has a limit point x_0 and $\phi(x_0, b, k) = w$ by continuity of ϕ .

Suppose $\|x_n\| \rightarrow \infty$. Let

$$M_n = \{i \mid g^i(x_n, b) \geq 0\} \quad n = 1, 2, \dots$$

Since there are only a finite number of possible M_n , there must be a subsequence of $\{x_n\}$ (which we will also denote by $\{x_n\}$) such that $\phi(x_n, b, k) \rightarrow w$ and $M_n = M_1$ for all n .

Let $K = \{x \in \mathbb{R}^n \mid g^i(x, b) \geq 0 \text{ all } i \in M_1, g^j(x, b) \leq 0 \text{ for all } j \notin M_1\}$. K is a closed, nonempty polyhedron (in particular all $x_n \in K$) so, by Theorem 2.12.6 of Stoer and Witzgall [28], we can decompose K as follows:

$$K = P + P'$$

P is a polytope such that $P \subset K$

P' is the cone $\{x \mid \langle a^i, x \rangle \geq 0 \text{ for all}$

$$i \in M_1, \langle a^j, x \rangle \leq 0 \text{ for all } j \notin M_1\}.$$

Therefore, each x_n can be written

$$x_n = y_n + u_n, \quad y_n \in P, \quad u_n \in P'.$$

(I.b)

$$\begin{aligned} \phi(x_n, b, k) &= \sum_{i \in M_1} k_i (\langle a^i, x_n \rangle + b_i)^2 \\ &= \sum_{i \in M_1} k_i (\langle a^i, y_n + u_n \rangle + b_i)^2 \\ &= \sum_{i \in M_1} k_i \left\{ (\langle a^i, y_n \rangle + b_i)^2 + (\langle a^i, u_n \rangle)^2 \right. \\ &\quad \left. + 2(\langle a^i, y_n \rangle + b_i)(\langle a^i, u_n \rangle) \right\}. \end{aligned}$$

Since $P \subset K$, $g^i(y_n, b) \geq 0$ for all $i \in M_1$. From the definition of P' above, we see

$$\langle a^i, u_n \rangle \geq 0 \text{ for all } n, \text{ for all } i \in M_1.$$

Therefore from (I.b)

$$\phi(x_n, b, k) \geq \phi(y_n, b, k) \geq w,$$

but $\phi(x_n, b, k)$ converges to w and so $\phi(y_n, b, k)$ converges to w . But all $y_n \in P$, and P is compact, so $\{y_n\}$ has a limit point x_0 and $\phi(x_0, b, k) = w$. Therefore $x_0 \in C(b, k)$. #

Since $[\cdot]^+$ is a convex, nonnegative, and nondecreasing function on R , and $(\cdot)^2$ is convex while $g^1(x, b)$ is an affine function of x , it follows that $\phi(x, b, k)$ is also a convex function in x . Observe also that $([\cdot]^+)^2$ is continuously differentiable with

$$\frac{d}{ds} ([s]^+)^2 = 2[s]^+.$$

Thus, $\phi(x, b, k)$ is continuously differentiable on R^n .

Let $\dot{x} = f(x)$ be any system of differential equations on R^n . A "critical point" of the system is any point y such that $f(y) = 0$.

Proposition I.3: x_0 is a k -centroid of b if and only if

$$\nabla \phi(x, b, k)|_{x_0} = 0, \text{ where } \nabla \text{ is the gradient operator with respect to } x.$$

Proof: This follows from the observation that ϕ is convex and continuously differentiable (see Fleming, [9], section 2-5). #

Proposition I.4: x_0 is a k -centroid of b if and only if x_0 is a critical point of System (I.a).

Proof: $\frac{\partial}{\partial x_j} (\phi(x, b, k)) = 2 \sum_{i=1}^m k_i [a^i, x] + b_i] a_j^i$

Hence, $\nabla \phi(x, b, k) = -2D(x, b, k)$, so x_0 is a critical point if and only if $D(x, b, k) = 0$ if and only if $\nabla \phi(x, b, k)|_{x_0} = 0$ if and only if x_0 is a k -centroid of b . #

§3. Properties of $C(b, k)$

We will now establish certain properties of $C(b, k)$. An easy observation is that if $\text{core}(b) \neq \emptyset$, then the set of k -centroids of b is a polyhedron. This is true even if $\text{core}(b) = \emptyset$.

Proposition I.5: $C(b, k)$ is a closed polyhedron.

Proof: Let x_0, x_1 be k -centroids of b . Then

$$0 = \sum_{i=1}^m k_i [g^i(x_1, b)]^+ a^i$$

$$\begin{aligned} \text{so } 0 &= \sum_{i=1}^m k_i [g^i(x_1, b)]^+ \langle a^i, x_0 - x_1 \rangle \\ &= \sum_{i=1}^m k_i [g^i(x_1, b)]^+ (g^i(x_0, b) - g^i(x_1, b)). \end{aligned}$$

$$\text{Similarly } 0 = \sum_{i=1}^m k_i [g^i(x_0, b)]^+ (g^i(x_0, b) - g^i(x_1, b)).$$

Subtracting, we obtain

$$\begin{aligned} 0 &= \sum_{i=1}^m k_i ([g^i(x_1, b)]^+ - [g^i(x_0, b)]^+) (g^i(x_0, b) - g^i(x_1, b)) \\ &= \sum_{i=1}^m k_i \left\{ -([g^i(x_1, b)]^+)^2 - ([g^i(x_0, b)]^+)^2 \right. \\ &\quad \left. + [g^i(x_1, b)]^+ (g^i(x_0, b)) + [g^i(x_0, b)]^+ (g^i(x_1, b)) \right\} \end{aligned}$$

$$\begin{aligned}
&\leq \sum_{i=1}^m k_i \left\{ - ([g^i(x_1, b)]^+)^2 - ([g^i(x_0, b)]^+)^2 \right. \\
&\quad \left. + 2[g^i(x_1, b)] [g^i(x_0, b)]^+ \right\} \\
&= - \sum_{i=1}^m k_i ([g^i(x_1, b)]^+ - [g^i(x_0, b)]^+)^2 \leq 0.
\end{aligned}$$

Therefore, $[g^i(x_0, b)]^+ = [g^i(x_1, b)]^+ \quad i = 1, \dots, m$;

moreover, if x_2 is any point in R^n such that

$[g^i(x_2, b)]^+ = [g^i(x_0, b)]^+$, then x_2 must also be a

k -centroid of b since $\phi(x_2, b, k) = \phi(x_0, b, k)$. Therefore,

knowing that there exists at least one k -centroid of b , x_0 ,

$C(b, k)$ can be rewritten as

$$\{x \in R^n \mid g^i(x, b) \leq 0 \text{ for all } i \text{ for which } g^i(x_0, b) \leq 0\}$$

$$\cap \{x \in R^n \mid g^i(x, b) = g^i(x_0, b) \text{ for all } i \text{ for which } g^i(x_0, b) > 0\}$$

which is the finite intersection of half-spaces and hyperplanes

and is therefore a polyhedron. #

The following fact which appears in the previous proof bears emphasizing:

Corollary I.6: $[g^i(x, b)]^+$ is constant over $C(b, k)$ for $i = 1, \dots, m$.

Geometrically, this means that all k -centroids of b not only "offend" the same hyperplanes, but lie equidistant from each of them.

Corollary I.7: If x_0 and x_1 are distinct k -centroids of b , then

$$\langle x_1 - x_0, a^i \rangle = 0 \text{ for all } i \text{ such that } g^i(x_0, b) > 0.$$

Corollary I.8: Let x_0 be a k -centroid of b . If $\{a^i | g^i(x_0, b) > 0\}$ span R^n , then x_0 is the unique k -centroid of b .

It would be of interest to know how the set $C(b, k)$ changes with b and k . Unfortunately, this is still primarily an open question as of this writing, although partial answers can be given. In particular, when $\text{core}(b) \neq \emptyset$, $b \in \{\text{interior } \{b | \text{core } b \neq \emptyset\}\}$ then small changes in b affect $C(b, k) = \text{core}(b)$ only slightly. To show this, we first establish some terminology in the manner of Dantzig, et al. [7].

Let $\{A_n\}$ be a sequence of subsets of some metric space X (in our case, X will be R^n).

Define

$$\overline{\text{LIM}} A_n = \left\{ x \in X \mid x = \lim_{i \rightarrow \infty} x_{n_i} \text{ where } \{n_i\} \text{ is an infinite sequence of integers and } x_{n_i} \in A_{n_i} \right\}.$$

$$\underline{\text{LIM}} A_n = \left\{ x \in X \mid x = \lim_{n \rightarrow \infty} x_n \text{ where } x_n \in A_n \text{ for all but a finite number of } n \right\}.$$

If $\underline{\text{LIM}} A_n = \overline{\text{LIM}} A_n$, then we say $\text{LIM } A_n$ exists and we set

$$\text{LIM } A_n = \underline{\text{LIM}} A_n = \overline{\text{LIM}} A_n.$$

LEMMA I.9 (Dantzig et al.): Let X be a metric space and let $\{A_n\}$

be a sequence of connected subsets of X .

Let U be an open subset of X with com-

pact boundary. If $\underline{\text{LIM}} A_n$ is nonempty and

$\overline{\text{LIM}} A_n \subset U$, then $A_n \subset U$ for all sufficiently large n .

Lemma I.10 (Dantzig et al.): Let $\{b^n\}$ be a sequence in R^m , where $b^n \rightarrow b$ and suppose $\text{core}(b) \neq \emptyset$, $\text{core}(b^n) \neq \emptyset$ for all n , then $\text{LIM}(\text{core}(b^n)) = \text{core}(b)$.

We would like to be able to quantify this notion by putting a metric on subsets of R^n . To do this, first define for any $x \in R^n$, and any set $A \subseteq R^n$,

$$d(x|A) = \inf_{y \in A} \|x - y\|.$$

For two sets A and B in R^n define

$$\mu(A, B) = \max \left(\sup_{x \in A} d(x|B), \sup_{x \in B} d(x|A) \right).$$

This is a metric on the space of compact subsets of R^n and is commonly called the Hausdorff metric. The following proposition establishes the continuity of $\text{core}(b)$ in the Hausdorff metric. This has already been observed by Sondermann [25] in the case of games.

Proposition I.11: Suppose $b^n \rightarrow b$, $\text{core}(b^n) \neq \emptyset$ for all n , $\text{core}(b) \neq \emptyset$ and $\text{core}(b)$ is compact. Then for all $\epsilon > 0$, there exists N s.t.
 $\mu(\text{core}(b), \text{core}(b^n)) < \epsilon$ whenever $n \geq N$.

Proof: Suppose not, then there exists an $\epsilon > 0$ and a subsequence $n_i \rightarrow \infty$ such that $(\text{core}(b^{n_i}), \text{core}(b)) \geq \epsilon$. This can happen in either (or both) of two ways.

1) There exists subsequence $n_j \rightarrow \infty$, $x_{n_j} \in \text{core}(b^{n_j})$ and

$$d(x_{n_j} | \text{core}(b)) \geq \epsilon \text{ for all } j.$$

ii) There exists subsequence $n_k \rightarrow \infty$, $x_{n_k} \in \text{core}(b)$ and

$$d(x_{n_k} \mid \text{core}(b^{n_k})) \geq \varepsilon \quad \text{for all } k.$$

Suppose i) occurs, then by Lemma I.9, $\{x_{n_j}\}$ must have a convergent subsequence, so without loss of generality we may assume $\{x_{n_j}\}$ converges to some point x_0 . By definition, $x_0 \in \overline{\text{LIM}} \text{core}(b^{n_j})$, hence $x_0 \in \text{core}(b)$ by Lemma I.10. But $d(x_{n_j} \mid \text{core}(b)) \geq \varepsilon$ implies $d(x_0 \mid \text{core}(b)) \geq \varepsilon$, a contradiction.

Now suppose ii) occurs. By the compactness of $\text{core}(b)$, we can assume $x_{n_k} \rightarrow x_0 \in \text{core}(b)$. But $x_0 \in \text{core}(b)$ if and only if $x_0 \in \text{LIM} \text{core}(b^{n_k})$ so $x_0 = \text{LIM}_{k \rightarrow \infty} y_{n_k}$ where $y_{n_k} \in \text{core}(b^{n_k})$ for all but finitely many k . Pick k sufficiently large so that

$$\|x_{n_k} - x_0\| < \varepsilon/2 \quad \text{and}$$

$$\|y_{n_k} - x_0\| < \varepsilon/2.$$

Therefore $\|x_{n_k} - y_{n_k}\| < \varepsilon$ so that

$$\varepsilon > \|x_{n_k} - y_{n_k}\| \geq d(x_{n_k} \mid \text{core}(b^{n_k})).$$

But we assumed $d(x_{n_k} \mid \text{core}(b^{n_k})) \geq \varepsilon$ so we are left with another contradiction. #

94. Convergence of Solutions of (I.a)

We have already shown that the k -centroids of b were precisely the critical points of System (I.a). The next Proposition will show the relationship between solutions of (I.a) and $C(b,k)$.

Proposition I.14: For any $x_0 \in \mathbb{R}^n$, $b \in \mathbb{R}^m$ and $k \in \mathbb{R}_+^m$, the solution

$\gamma(t, x_0, b, k)$ of (I.a) with $\gamma(0, x_0, b, k) = x_0$

is bounded for $t \geq 0$ and further, as $t \rightarrow \infty$,

$\gamma(t, x_0, b, k)$ converges to a k -centroid of b .

Proof: Let \hat{x} be any k -centroid of b . For any $x \in \mathbb{R}^n$ define

$$z(x) = \frac{1}{2} \|x - \hat{x}\|^2.$$

Thus, along any solution to (I.a), i.e., where

$$x = x(t) = \gamma(t, x_0, b, k),$$

$$\frac{d}{dt}(z(x)) = \left\langle \frac{dx}{dt}, x - \hat{x} \right\rangle$$

$$= - \sum_{i=1}^m k_i [g^i(x, b)]^+ \langle a^i, x - \hat{x} \rangle$$

$$= \sum_{i=1}^m k_i [g^i(x, b)]^+ \langle a^i, \hat{x} - x \rangle$$

$$= \sum_{i=1}^m k_i [g^i(x, b)]^+ (g^i(\hat{x}, b) - g^i(x, b)).$$

We saw in the proof of Proposition I.5 that

$$\sum_{i=1}^m k_i [g^i(\hat{x}, b)]^+ (g^i(\hat{x}, b) - g^i(x, b)) = 0.$$

Therefore, by subtracting

$$\begin{aligned}
 \text{(I.c)} \quad \frac{d}{dt} Z &= \sum_{i=1}^m k_i ([g^i(x,b)]^+ - [g^i(\hat{x},b)]^+) (g^i(\hat{x},b) - g^i(x,b)) \\
 &\leq - \sum_{i=1}^m k_i ([g^i(x,b)]^+ - [g^i(\hat{x},b)]^+)^2 \leq 0,
 \end{aligned}$$

i.e.,

$$\begin{aligned}
 &\frac{d}{dt} ||\gamma(\tau, x_0, b, k) - \hat{x}||^2 \Big|_{\tau=t} \leq 0 \text{ for all } t \geq 0 \text{ so} \\
 \text{(I.c')} \quad &||\gamma(t, x_0, b, k) - \hat{x}|| \leq ||x_0 - \hat{x}|| \text{ for all } t \geq 0.
 \end{aligned}$$

Moreover, (I.c) and uniqueness of solutions imply that if x_0 is not a k -centroid of b , then

$$\frac{d}{dt} ||\gamma(\tau, x_0, b, k) - \hat{x}||^2 \Big|_{\tau=t} < 0 \text{ for all } t \geq 0.$$

Hence, $Z(x)$ is a Lyapunov function on R^n for System (I.a) and it follows from standard results (see Hale [12], p. 296) that the ω -limit set of $\gamma(t, x_0, b, k)$ is contained in $C(b, k)$ where the ω -limit set of $\gamma(t, x_0, b, k)$ is the set of limit points in R^n of $\gamma(t, x_0, b, k)$ as $t \rightarrow \infty$. All that remains to show is that $\gamma(t, x_0, b, k)$ converges to a single k -centroid of b . Suppose there were two distinct points, \bar{x} and \tilde{x} in the ω -limit set of $\gamma(t, x_0, b, k)$. Let $\epsilon > 0$ be such that $||\bar{x} - \tilde{x}|| > 2\epsilon$. By the definition of ω -limit set, there exists $T > 0$ s.t. $||\gamma(T, x_0, b, k) - \bar{x}|| < \epsilon$, but $||\gamma(t, x_0, b, k) - \bar{x}||$ is a decreasing function of t , so for all $t \geq T$, $||\gamma(t, x_0, b, k) - \bar{x}|| < \epsilon$ so $||\gamma(t, x_0, b, k) - \tilde{x}|| > \epsilon$, contradicting the assertion that \tilde{x} was in the ω -limit set of $\gamma(t, x_0, b, k)$. #

Note: In the case that $\text{core}(b) \neq \emptyset$, it is possible to show the following more general result. For $i = 1, \dots, m$, let $f^i(s)$ be a continuous and locally Lipschitz function on R such that $f^i(s) > 0$ if $s > 0$, $f^i(s) = 0$ if $s \leq 0$. Then if $\gamma(t, x_0, b, f)$ is a solution to the system

$$\dot{x} = - \sum_{i=1}^m f^i(g^i(x, b)) a^i$$

then as $t \rightarrow \infty$, $\gamma(t, x_0, b, f)$ converges to a point of $\text{core}(b)$. For $f^i(\cdot) = k_i[\cdot]^+$, this result is contained in Proposition I.14.

We will denote the limit point of $\gamma(t, x_0, b, k)$ by $\gamma(\infty, x_0, b, k)$. It is evident from equation (I.c') that all k -centroids of b are stable (in the sense of Lyapunov) points of System (I.a). It clearly follows that System (I.a) has no unstable critical points.

Convergence, as has been seen, is straightforward. For any initial point x_0 , the solution $\gamma(t, x_0, b, k)$ approaches each k -centroid of b simultaneously as $t \rightarrow \infty$ and converges to a particular one.

Convergence can be viewed in another way, however. Since the k -centroids of b were characterized as the minimizing points of $\phi(x, b, k)$, it is of interest to investigate

$$\phi(\gamma(t, x_0, b, k), b, k)$$

as $t \rightarrow \infty$. Recall that in the proof of Proposition I.4 we showed that

$$\nabla \phi = -2D(x, b, k).$$

Thus we immediately see that

$$\frac{d}{dt} \phi(\gamma(t, x_0, b, k), b, k) = \langle \nabla \phi, \frac{d}{dt} \gamma(t, x_0, b, k) \rangle = -2 \|D(x, b, k)\|^2,$$

that is, ϕ is decreasing along solutions of (I.a). Moreover, since System (I.a) can be rewritten

$$\dot{x} = -\frac{1}{2} \nabla \phi(x, b, k),$$

the solutions of (I.a) follow the negative gradient of the function ϕ . In other words, at any point x , the solutions of (I.a) tend in the direction most optimal to minimize ϕ . In general, however, it is not the case that the solutions follow a shortest path (in the sense of arclength) from x_0 to $C(b, k)$, nor is $\gamma(\omega, x_0, b, k)$ necessarily the closest k -centroid of b to x_0 .

§5. Cocentroids

The set $CC(b, k)$ of " k -cocentroids of b " is the set

$$\{x \in \mathbb{R}^n \mid \psi(x, b, k) = \inf_{y \in \mathbb{R}^n} \psi(y, b, k)\}$$

where
$$\psi(x, b, k) = \sum_{i=1}^m k_i \left([-g^i(x, b)]^+ \right)^2.$$

Note that the k -cocentroids of b (with vectors $\{a^i\}$) are the k -centroids of $-b$ (with vectors $\{-a^i\}$). Hence such observations as $CC(b, k)$ is a polyhedron and $[-g^i(x, b)]^+$ is constant over $CC(b, k)$ and so forth are obvious. Moreover, it immediately follows that solutions of

$$(I.d) \quad \dot{x} = \sum_{i=1}^m k_i [-g^i(x, b)]^+ a^i$$

converge to k -cocentroids of b . We will say more about cocentroids later on.

§6. Continuity of Limit Points

We can consider $\gamma(\infty, x_0, b, k)$ as a function from $R^n \times R^m \times R_+^m$ to $C(b, k)$. This section will investigate some of the continuity properties of $\gamma(\infty, \cdot, \cdot, \cdot)$. Note that any such result is also dependent on the continuity of $C(b, k)$. We will need the following lemma which is a standard result of the theory of ordinary differential equations.

Lemma I.15: Let $\gamma(t, x_0, b_0, k_0)$ be a solution of System (I.a) for some (x_0, b_0, k_0) in $R^n \times R^m \times R_+^m$. For (x, b, k) in an open neighborhood of (x_0, b_0, k_0) (in the product space), there is a solution $\gamma(t, x, b, k)$ of System (I.a). Moreover $\gamma(t, x, b, k)$ is continuous in (t, x, b, k) at (t_0, x_0, b_0, k_0) for all t_0 .

Proof: This follows from the continuity of $D(x, b, k)$ in (x, b, k) and also from the uniqueness of solutions of System (I.a).

(cf Hale [12], Theorem I.3.4). #

Proposition I.16: For any $(b, k) \in R^m \times R_+^m$ $\gamma(\infty, x_0, b, k)$ is continuous in x_0 .

Proof: Pick $\varepsilon > 0$, any $x_0 \in \mathbb{R}^n$. Pick T so large that

$$||\gamma(T, x_0, b, k) - \gamma(\infty, x_0, b, k)|| < \varepsilon/4.$$

Choose δ s.t. $||x - x_0|| < \delta$ implies

$$||\gamma(T, x_0, b, k) - \gamma(T, x, b, k)|| < \varepsilon/4$$

which we can do by the previous lemma. Therefore

$$||\gamma(T, x, b, k) - \gamma(\infty, x_0, b, k)|| < \varepsilon/2, \text{ but by Equation I.c'}$$

$$||\gamma(t, x, b, k) - \gamma(\infty, x_0, b, k)|| < \varepsilon/2$$

for all $t \geq T$. Since for some $T' \geq T$

$$||\gamma(t, x, b, k) - \gamma(\infty, x, b, k)|| < \varepsilon/2$$

for all $t \geq T'$ it follows that

$$||\gamma(\infty, x, b, k) - \gamma(\infty, x_0, b, k)|| < \varepsilon. \quad \#$$

The continuity of $\gamma(\infty, x_0, b, k)$ in (x_0, b, k) , as mentioned before is dependent on the continuity of $C(b, k)$ and can only be established, therefore, in those cases where the continuity of $C(b, k)$ is known.

Let $W = \{b \in \mathbb{R}^m \mid \text{core}(b) \neq \emptyset \text{ and } \text{core}(b) \text{ is compact}\}$. Let D be a compact subset of \mathbb{R}^n , and E a compact subset of W . Observe that by Proposition I.11, $\text{core}(b)$ can be viewed as a continuous mapping from W to the space of compact subsets of \mathbb{R}^n . Hence, over E , the continuity is uniform, i.e., for all $\eta > 0$, there exists $\delta > 0$ such that $\mu(\text{core}(b), \text{core}(b')) < \eta$ whenever, $b, b' \in E$, $||b - b'|| < \delta$. Let B be a compact subset of $D \times E \times \mathbb{R}_+^m$.

Lemma I.17: Let $\varepsilon > 0$. Then there exists N s.t.

$$||\gamma(t, x, b, k) - \gamma(\infty, x, b, k)|| < \varepsilon \text{ for all } t \geq N \text{ and all } (x, b, k) \in B.$$

Proof: Let

$$T_n(b_0) = \{(x, b, k) \in R^n \times W \times R_+^m \mid d(\gamma(n, x, b, k) \mid \text{core}(b_0)) < \epsilon/4\}$$

for $n = 1, 2, \dots$ and all $b_0 \in W$

and pick δ such that for all $b, b' \in E$, $\|b - b'\| < \delta$ implies

$$\mu(\text{core}(b), \text{core}(b')) < \epsilon/4. \text{ Let } V(b) = \{\bar{b} \in W \mid \|b - \bar{b}\| < \delta\}$$

for all $b \in W$. Now set $U(b) = R^n \times V(b) \times R_+^m$.

$T_n(b)$ is an open set in $R^n \times W \times R_+^m$ since it is the inverse image of an open set under the continuous map $\gamma(n, \cdot, \cdot, \cdot)$.

Also it is clear that $U(b)$ is open in $R^n \times W \times R_+^m$.

Let $S_n(b) = T_n(b) \cap U(b)$, $n = 1, 2, \dots$, $b \in W$,

and let $S_n = \bigcup_{b \in E} S_n(b)$, $n = 1, 2, \dots$.

Each $S_n(b)$ is open in $R^n \times W \times R_+^m$ and thus so is each S_n .

Moreover, for all $(x, b, k) \in B$, $(x, b, k) \in S_n$ for some n since

for some n , $d(\gamma(n, x, b, k) \mid \text{core}(b)) < \epsilon/4$, and, of course,

$(x, b, k) \in U(b)$. Thus $\{S_n\}$ is an open cover of B , B is

compact, hence there is a finite subcover S_{n_1}, \dots, S_{n_k} of B .

Let $(x, b, k) \in S_{n_j} \cap B$, then $(x, b, k) \in S_{n_j}(b_0)$

for some $b_0 \in E$, i.e.,

$$(x, b, k) \in T_{n_j}(b_0) \cap U(b_0).$$

But if so, then

$$d(\gamma(n_j, x, b, k) \mid \text{core}(b_0)) < \epsilon/4 \quad \text{and}$$

$$\|b - b_0\| < \delta \text{ which implies } \mu(\text{core}(b), \text{core}(b_0)) < \epsilon/4.$$

Therefore

$$d(\gamma(n_j, x, b, k) \mid \text{core}(b)) < \epsilon/2.$$

From Equation (I.c') , it follows that

$$||\gamma(n_j, x, b, k) - \gamma(\infty, x, b, k)|| < \varepsilon .$$

But since any $(x, b, k) \in B$ lies in some S_{n_j} , setting

$N = \text{MAX}_{1 \leq i \leq k} \{n_i\}$ will satisfy the requirement of the hypothesis. #

Note that continuity of γ in k was not explicitly used in the above proof. Indeed, the variable k was merely carried along in the notation (except in the assertion that $T_n(b)$ was open). The reason for this is that if $\text{core}(b) \neq \emptyset$, then, as we have seen, $C(b, k)$ is independent of k . To complete the continuity section we show:

Proposition I.18: $\gamma(\infty, x, b, k)$ is jointly continuous in (x, b, k) for $(x, b, k) \in R^n \times W \times R_+^m$.

Proof: Let $\{x^j\}$, $\{b^j\}$, $\{k^j\}$ be sequences in R^n , W , and R_+^m respectively and suppose there exists $(x, b, k) \in R^n \times W \times R_+^m$ such that $x^j \rightarrow x$, $b^j \rightarrow b$, and $k^j \rightarrow k$. Since

$\left(\bigcup_{j=1}^{\infty} (x^j, b^j, k^j) \right) \cup (x, b, k)$ is compact, then by Lemma I.17

there exists a T such that

$$||\gamma(T, x^j, b^j, k^j) - \gamma(\infty, x^j, b^j, k^j)|| < \varepsilon/3 \quad j = 1, 2, \dots$$

$$||\gamma(T, x, b, k) - \gamma(\infty, x, b, k)|| < \varepsilon/3 .$$

By Lemma I.15 it is possible to choose an M so large that

$$||\gamma(T, x^j, b^j, k^j) - \gamma(T, x, b, k)|| < \varepsilon/3 \quad \text{for all } j \geq M .$$

Therefore, for all $j \geq M$,

$$\begin{aligned} & ||\gamma(\omega, x^j, b^j, k^j) - \gamma(\omega, x, b, k)|| \leq \\ & ||\gamma(\omega, x^j, b^j, k^j) - \gamma(T, x^j, b^j, k^j)|| \\ & \quad + ||\gamma(T, x^j, b^j, k^j) - \gamma(T, x, b, k)|| \\ & \quad + ||\gamma(T, x, b, k) - \gamma(\omega, x, b, k)|| < \epsilon. \quad \# \end{aligned}$$

It is conjectured that $\gamma(\omega, x, b, k)$ is continuous in (x, b, k) over $R^n \times R^m \times R_+^m$, but this has not as yet been proven.

§7. Nuclei

Recall that for System (I.a), there were no restrictions on the vectors $\{a^i\}$ other than that they be unit vectors. Hence there is no requirement that they be linearly independent, or any such condition. Suppose, given $\{a^i \mid i = 1, \dots, m\}$, $a^i \in R^n$, $b \in R^m$, $k \in R_+^m$, we generate a new set of vectors. $\{\bar{a}^i \mid i = 1, \dots, 2m\}$, $\bar{a}^i \in R^n$, $\bar{b} \in R^{2m}$, $\bar{k} \in R_+^m \times R_+^m = R_+^{2m}$ in the following way:

$$\bar{a}^i = -\bar{a}^{m+i} = a^i \quad i = 1, \dots, m$$

$$\bar{b}_i = -\bar{b}_{m+i} = b_i \quad i = 1, \dots, m$$

$$\bar{k}_i = \bar{k}_{m+i} = k_i \quad i = 1, \dots, m.$$

Using these vectors, we can exhibit the analogue of System (I.a):

$$\begin{aligned} \text{(I.e)} \quad \dot{x} &= - \sum_{i=1}^{2m} \bar{k}_i [\langle \bar{a}^i, x \rangle + \bar{b}_i]^+ \bar{a}_i \\ &= - \sum_{i=1}^m k_i \left\{ [g^i(x, b)]^+ a_i - [-g^i(x, b)]^+ a^i \right\} \end{aligned}$$

$$(I.e') \quad \text{or} \quad \dot{x} = - \sum_{i=1}^m k_i \left(g^i(x, b) \right) a^i.$$

Similarly, we can define the \bar{k} -centroids of \bar{b} (with vectors $\{\bar{a}^i\}$) to be the minimizing points of

$$\begin{aligned} \theta(x) &= \sum_{i=1}^{2m} \bar{k}_i ([\langle \bar{a}^i, x \rangle + \bar{b}_i]^+)^2 \\ &= \sum_{i=1}^m \bar{k}_i (g^i(x, b))^2. \end{aligned}$$

We will define $N(b, k)$, the set of "k-nuclei of b (with vectors $\{a^i\})$ ", to be the set of \bar{k} -centroids of \bar{b} (with vectors $\{\bar{a}^i\}$). This definition, while introducing perhaps redundant terminology, stresses the differences between $C(b, k)$ and $N(b, k)$ while indicating that the k-nuclei of b are themselves centroids of a different, albeit related, set of vectors.

It is therefore to be expected that the set of k-nuclei of b would share many of the properties of $C(b, k)$ and this is indeed so. These are listed below for completeness.

Corollary I.19: For any $x_0 \in R^n$, $b \in R^m$, $k \in R_+^m$, there exists a unique solution to System (I.e') which converges to a k-nucleus of b . The set $N(b, k)$ is precisely the set of critical points of (I.e').

Corollary I.20: The set of k-nuclei of b is nonempty and polyhedral. Moreover $(\langle a^i, x \rangle + b_i)$ is constant as x ranges over $N(b, k)$ for $i = 1, \dots, m$.

Corollary I.21: The set $N(b, k)$ comprises a unique point if $\{a^i \mid i = 1, \dots, m\}$ spans R^n .

There is a slightly more general continuity result.

Proposition I.22: Let $\zeta(t, x_0, b, k)$ be a solution of (I.e') with limit point $\zeta(\infty, x_0, b, k)$. If the $\{a^i\}$ span R^n , then $\zeta(\infty, x_0, b, k)$ is continuous in (x_0, b) over $R^n \times R^m$.

Proof: Since $\{a^i\}$ span R^n , the k -nucleus of b is unique for all b . Thus, $\zeta(\infty, x_0, b, k)$ is independent of x_0 . Letting A be the matrix with rows $\sqrt{k_i} a^i$, we know that the k -nucleus of b , $\zeta(\infty, x_0, b, k)$, is $A^+ \beta$ where $\beta \in R^m$, $\beta_i = \sqrt{k_i} b_i$ and A^+ is the generalized (pseudo-) inverse of A . The conclusion follows from the observations the $A^+ \beta$ is a continuous function of b .

Note: for a discussion of generalized inverses, see, for example, Pringle and Rayner [20]. #

§8. Relationships among Centroids, Cocentroids and Nuclei

We conclude this chapter with a number of observations on the relationships among centroids, cocentroids, and nuclei.

Proposition I.23: If x is an element of any two of $C(b, k)$, $CC(b, k)$, $N(b, k)$, then it is an element of the third.

Proof: Note that

$$\begin{aligned}
 \text{(I.f)} \quad - \sum_{i=1}^m k_i (\langle a^i, x \rangle + b^i) a^i &= - \sum_{i=1}^m k_i [\langle a^i, x \rangle + b_i]^+ a^i \\
 &\quad + \sum_{i=1}^m k_i [-\langle a^i, x \rangle - b_i]^+ a^i
 \end{aligned}$$

so if any two of the summations vanishes, so must the third. #

Therefore, a k -centroid of b is a k -nucleus of b if and only if it is also a k -cocentroid of b , and so on.

Finally, we note some relations among the solutions of Systems (I.a), (I.d) and (I.e). Let $\gamma(t, x_0, b, k)$ be the solution of (I.a) with initial point x_0 , $\bar{\gamma}(t, x_0, b, k)$ the solution of System (I.d) with initial point x_0 and $\zeta(t, x_0, b, k)$ be the solution of System (I.e') with initial point x_0 . We will say that two functions of t , say $\alpha(t), \beta(t) \in \mathbb{R}^n$ are "negatively tangent" at x_0 if $\alpha(0) = \beta(0) = x_0$ and if

$$\frac{d}{dt}(\alpha(t))|_{t=0} = - \frac{d}{dt}(\beta(t))|_{t=0}.$$

Similarly, $\alpha(t)$ and $\beta(t)$ are "positively tangent" at x_0 if

$$\alpha(0) = \beta(0) = x_0 \quad \text{and}$$

$$\frac{d}{dt}(\alpha(t))|_{t=0} = \frac{d}{dt}(\beta(t))|_{t=0}.$$

The following are simple consequences of Equation (I.f).

Proposition I.24: a) $x_0 \in C(b, k)$ if and only if $\bar{\gamma}(t, x_0, b, k)$ and

$\zeta(t, x_0, b, k)$ are positively tangent at x_0 .

b) $x_0 \in CC(b, k)$ if and only if $\gamma(t, x_0, b, k)$ and

$\zeta(t, x_0, b, k)$ are positively tangent at x_0 .

c) $x_0 \in N(b, k)$ if and only if $\gamma(t, x_0, b, k)$ and

$\bar{\gamma}(t, x_0, b, k)$ are negatively tangent at x_0 .

II. Applications to Cooperative Game Theory

§1. Cooperative Games with Sidepayments

The concept of an "n-person cooperative game with sidepayments" was introduced in von Neumann and Morgenstern [29]. It consists of :

- a) $N = \{1, 2, \dots, n\}$, a set of players.
- b) $2^N \setminus \emptyset = \{S \neq \emptyset \mid S \subseteq N\}$, all "coalitions" of the players.
- c) $v: 2^N \setminus \emptyset \rightarrow R$, a "characteristic function".
- d) Some "set of payoffs" in R^n .

We will define precisely the set of payoffs in which we are interested below. A game is denoted (N, v) , or simply v , with the set N understood.

The players may correspond to individuals, corporations, nations, armies, or any set of entities which may cooperate by forming coalitions in order to secure a share of some limited commodity. We assume that this commodity is transferable from player to player; that is, a player or group of players may give all or part of their holdings of the commodity directly to any other player or group of players. The characteristic function $v(S)$ can be understood to represent how much of the commodity coalition S could obtain for itself as a unit were it to act independently of the remaining players.

A payoff $x \in R^n$ represents a potential or actual distribution of the commodity among the players where each player i receives x_i . Certainly not all $x \in R^n$ are logical payoffs. If we denote $\sum_{i \in S} x_i$ by $x(S)$, then among the more reasonable payoff concepts are the following:

Feasible payoffs: $\{x \in R^n \mid x(N) \leq v(N)\}$

Efficient payoffs: $\{x \in R^n \mid x(N) = v(N)\} \in E(v)$

S-rational payoffs: $\{x \in R^n \mid x(S) \geq v(S)\}$

Imputations: $\{x \in R^n \mid x(N) = v(N), x_i \geq v(\{i\})$

for all $i = 1, \dots, n\}$.

Since $v(N)$ represents the amount of the commodity which the entire set of players N can obtain by cooperating, it is not surprising that efficient payoffs are desirable if the game is to result in some sort of stable outcome with all players participating. Each coalition S , however, is most interested in an end result which is S-rational, and therein often lies the conflict among coalitions over what the final payoff should be. Infeasible points, i.e., those which are not feasible, may be thought of as unattainable by the grand coalition N .

In order to quantify in some way the satisfaction or dissatisfaction of coalition S with a payoff x , denote by $e_S(x)$ the quantity

$$v(S) - x(S).$$

This quantity is sometimes called the "excess of S at x ".

Presumably, the smaller $e_S(x)$, the more satisfied is coalition S with payoff x . Let us also define at this time the "efficient excess of S at x " for $S \neq N, \emptyset$ to be

$$\hat{e}_S(x) = \langle -A^S, x \rangle + \left(\frac{|N| v(S)}{|S| (|N| - |S|)} - \frac{v(N)}{|N| - |S|} \right)$$

where:

$|S|$ is the cardinality of S ,

$|N| = n$, and

$A^S \in R^n$ such that

$$A^S_i = \begin{cases} \frac{1}{|S|} & i \in S \\ \frac{-1}{|N| - |S|} & i \notin S. \end{cases}$$

The purpose of this efficient excess will become clear shortly.

§2. Solution Concepts

A solution concept is a payoff or a set of payoffs which is either (1) equitable with respect to certain axioms of fairness or optimality, or (2) is "stable" with respect to some type of bargaining procedure. Two well-known solution concepts are appropriate to the results of this chapter.

The "core" is the set of efficient points which are S-rational for all S. Explicitly,

$$\text{core}(v) = \{x \in E(v) \mid e_S(x) \leq 0 \text{ for all } S \in 2^N - \emptyset\}.$$

The core of a game may be empty, but when it is not, it is a closed polytope. Core points are both optimal, in the sense that each coalition is receiving at least as much as $v(S)$, and stable, in the sense that no coalition could expect to profit by withdrawing unilaterally from the game.

The Shapley value is a solution concept which falls into the category of "fair" points. The Shapley value, usually denoted $\phi[v]$, is determined uniquely over the class of all n-person games by the following three axioms.

- I. A carrier for a game v is a coalition T such that for all S , $v(S) = v(S \cap T)$. The first axiom requires that for any carrier T of v , $\phi[v](T) = v(T)$.
- II. Let π be a permutation on $\{1, \dots, n\}$. Let πv be the game such that $\pi v(S) = v(\pi S)$. For any vector $x \in \mathbb{R}^n$ let πx be

the vector such that $(\pi x)_i = x_{\pi i}$, $i = 1, \dots, n$. Then the second axiom requires that

$$\phi(\pi v) = \pi \phi(v) \text{ for all permutations } \pi \text{ and all games } v.$$

III. If u and v are two n -person games, let the game $u + v$ be the game $(u+v)(S) = u(S) + v(S)$. The third axiom then requires that $\phi_i[u+v] = \phi_i[u] + \phi_i[v]$.

Axioms I and II have several well-known consequences which substantiate the notion that the Shapley value is a fair division point. Let us briefly mention two. First, call player i a "dummy" if, for all coalitions S which do not contain i , $v(S \cup \{i\}) = v(S) + v(\{i\})$.

It follows then that $\phi_i[v] = v(\{i\})$. That is, players which bring the same marginal value to all coalitions receive that amount at the Shapley value. Second, let us say two players, i and j , are "symmetric" if $v(\{i\}) = v(\{j\})$ and for all coalitions S containing neither i nor j , $v(S \cup \{i\}) = v(S \cup \{j\})$. Then, by Axiom II, $\phi_i[v] = \phi_j[v]$. Hence players which are equivalent under the characteristic function receive the same payoff at the Shapley value.

§3. Efficient Bargaining Systems

For $\{A^S \in \mathbb{R}^N \mid S \in 2^N - \emptyset\}$ and efficient excesses

$\{\hat{e}_S(x) \mid x \in \mathbb{R}^N, S \in 2^N - (\emptyset \cup N)\}$ as defined previously, we define an "efficient bargaining system" to be a system of differential equations of the following form:

$$(II.a) \quad \dot{x} = \sum_{S \in 2^N - (\emptyset \cup N)} k_S \left[\frac{\hat{e}_S(x)}{\|A^S\|} \right]^+ \frac{A^S}{\|A^S\|}$$

where $\dot{x} = \frac{dx}{dt}$ and

$k_S \in \mathbb{R}_+$ for all $S \in 2^N - (\emptyset \cup N)$.

Note that we have substituted $2^N - (\emptyset \cup N)$ for a set of integers as the index set of the summation. The set $\{k_S > 0 | S \in 2^N - (\emptyset \cup N)\}$ will be called the set of "coalitional weights". \mathbb{R}^{2^n-2} is clearly the set of all such. The variable t may be considered as time.

It is apparent that System (II.a) is of the same form as System (I.a) so that for any point x_0 , there exists a continuous (in t) solution $\gamma(t, x_0, v, k)$ such that $\gamma(0, x_0, v, k) = x_0$. Note that along solutions of (II.a)

$$\frac{d}{dt} \sum_{i=1}^n \gamma_i(t, x_0, v, k) = 0$$

so that we can state:

Lemma II.1: If initial point x_0 is efficient, then $\gamma(t, x_0, v, k)$ is efficient for all t .

Lemma II.2: For all $S \neq N, \emptyset$, all $x \in E(v)$

$$\frac{\hat{e}_S(x)}{||A^S||^2} = e_S(x).$$

Proof:
$$\frac{\hat{e}_S(x)}{||A^S||^2} = \frac{1}{||A^S||^2} \left\{ -\langle A^S, x \rangle + \frac{|N|}{|S|(|N| - |S|)} v(S) - \frac{v(N)}{|N| - |S|} \right\}$$

$$||A^S||^2 = \frac{1}{|S|} + \frac{1}{|N| - |S|} = \frac{|N|}{|S|(|N| - |S|)}$$

so

$$\begin{aligned} \frac{\hat{e}_S(x)}{||A^S||^2} &= \frac{|S|(|N| - |S|)}{|N|} \left\{ -\frac{x(S)}{|S|} + \frac{x(N-S)}{|N| - |S|} + \frac{|N|}{|S|(|N| - |S|)} v(S) - \frac{v(N)}{|N| - |S|} \right\} \\ &= \frac{|S|(|N| - |S|)}{|N|} \left\{ -\frac{x(S)}{|S|} + \frac{x(N)}{|N| - |S|} - \frac{x(S)}{|N| - |S|} + \frac{|N|}{|S|(|N| - |S|)} v(S) - \frac{v(N)}{|N| - |S|} \right\} \end{aligned}$$

but $x \in E(v) \Leftrightarrow x(N) = v(N)$ so

$$\frac{\hat{e}_S(x)}{\|A^S\|^2} = \frac{|S| (|N| - |S|)}{|N|} \left\{ \left(-x(S) + v(S) \right) \frac{|N|}{|S| (|N| - |S|)} \right\} \\ = e_S(x) . \quad \#$$

Note that this shows $\text{core}(v) = \{x \in E(v) \mid e_S(x) \leq 0 \text{ for all } S \neq N\}$

$$= \{x \in E(v) \mid \hat{e}_S \leq 0 \text{ for all } S \neq N\} .$$

Lemmas II.1 and II.2 yield:

Proposition II.3: If initial point $x_0 \in E(v)$ then $\gamma(t, x_0, v, k)$ with $\gamma(0, x_0, v, k) = x_0$ is a solution of System (II.a) if and only if it is a solution of the following system:

$$(II.b) \quad \dot{x} = \sum_{S \neq N} k_S [e_S(x)]^+ A^S .$$

It is informative to give an intuitive interpretation of System (II.b) in terms of possible actions of the players in the game. We will, in general, refer to such an interpretation as a "behavior". It should be noted that, in this context, "behavior" is not intended to be a rigorous concept, but only an aid to intuition.

Suppose, during negotiation among the players to determine the final distribution of the payoff, some efficient payoff x is offered. Since the players participate in the game through coalitions, it is for the coalitions to alter x to obtain a more desirable payoff. Let us assume coalition S evaluates x by observing $e_S(x)$, and on that basis decides whether to demand more from its complementary set, i.e., the remaining players. If $e_S(x) \leq 0$, coalition S is receiving at

least as much as it is worth (according to the characteristic function) and therefore cannot enforce a demand on $N-S$. If $e_S(x) > 0$, however, we will permit S to extract payment from $N-S$ at a rate proportional to $e_S(x)$. It is understood, of course, that $N-S$ will be permitted to extract payment from S if $e_{N-S}(x) > 0$. The term $k_S[e_S(x)]^+$ in (II.b) represents the rate of payment from $N-S$ to S . The multiple k_S is just the constant of proportionality. Since all members of a coalition participate equally in the activities of that coalition, each member of S receives $\frac{1}{|S|} k_S[e_S(x)]^+$ while each member of $N-S$ pays $\frac{1}{|N|-|S|} k_S[e_S(x)]^+$. This ensures that the total payoff $x(N)$ remains constant. Summing all these payments over all coalitions of $2^N - \{N \cup \emptyset\}$, the total rate of redistribution of payoff is clearly

$$\sum_{S \neq N} k_S[e_S(x)]^+ A^S.$$

The grand coalition N is excluded from the summation since there is no one from whom N can extract payment. In addition, by choosing efficient initial points, the coalition N always receives satisfactory payment.

In light of the previous discussion, it would not be unreasonable to view the coalitional weights as some measure of a coalition's ability to extract payment from its complementary coalition, in other words, its "influence". Such heuristic interpretations will be given from time to time although no attempt will be made in this work to make these more rigorous. The coalitional weights will be studied later as a means by which certain notions of fairness in bargaining can be enforced.

4. Centroids for Games

We will define k -centroids of a game v in a somewhat more restrictive way than in Chapter I. The added constraint will be seen to cause no great difficulty.

Let v be an n -person game, and $k \in \mathbb{R}_+^{2^n-2}$. Define $C(v, k)$, the set of " k -centroids of v " to be the set

$$\{x \in E(v) \mid \phi'(x, v, k) = \inf_{y \in E(v)} \phi'(y, v, k)\}$$

where

$$\phi'(x, v, k) = \sum_{S \neq N} k_S \left(\left[\frac{\hat{e}_S(x)}{||A^S||} \right]^+ \right)^2.$$

Had we defined the k -centroid of v as in Chapter I, that is, by omitting the constraint $x(N) = v(N)$, the nature of $\{A^S\}$ would make it clear that the set of unconstrained centroids would be precisely $\{C(v, k) + \lambda u \mid -\infty < \lambda < \infty\}$ where u is the unit vector normal to $E(v)$; i.e., $C(v, k)$ is the projection of the set of unconstrained centroids onto $E(v)$. This is because $\langle A^S, u \rangle = 0$ for all $S \neq N$.

Proposition II.4: \bar{x} is a k -centroid of v if and only if \bar{x} minimizes

$$\phi(x, v, k) = \sum_{S \neq N} k_S ||A^S||^2 ([e_S(x)]^+)^2$$

over $E(v)$.

Proof: Lemma II.2 shows that over $E(v)$, $\phi = \phi'$. #

For $x \in E(v)$, let us call $k_S ||A^S||^2 ([e_S(x)]^+)^2$ the "dissatisfaction of S at x ", and $\phi(x, v, k)$ the "total dissatisfaction at x ".

The set $\{S | e_S(x) > 0\}$ will be the "set of dissatisfied coalitions". Using this terminology, $C(v,k)$ is the set of efficient payoffs which minimize total dissatisfaction, while $\text{core}(v)$ consists of those efficient points at which total dissatisfaction is 0. As in Chapter I, if $\text{core}(v) \neq \emptyset$, $\text{core}(v) = C(v,k)$.

Lemma II.5: For all $S \neq N$, the dissatisfaction of S at x is constant as x ranges over $C(v,k)$.

Proof: See Corollary I.6. #

Therefore, a dissatisfied coalition S is indifferent to variations of payoff over $C(v,k)$ since $e_S(x)$ will remain constant. It is interesting that the set of dissatisfied coalitions is the same for all k -centroids of v for a given k , i.e., it is impossible to satisfy any such S without raising the total dissatisfaction.

Under this interpretation, the coalitional weights could be viewed as measures of the coalitions' sensitivities to not receiving their values--the larger k_S , the more dissatisfied is S at any given payoff.

Proposition II.6: $C(v,k)$ is a nonempty closed polytope.

Proof: By Proposition I.5, $C(v,k)$ is a closed polyhedron. Suppose it is not compact, then it contains some half line

$$\{y_0 + ru | r \geq 0, y_0 \in C(v,k), u \neq 0\}.$$

Since $C(v,k) \subset E(v)$,

$$\text{it follows that } \sum_{i=1}^n u_i = 0.$$

By Lemma II.5

$$[e_S(y_0 + ru)]^+ = [e_S(y_0)]^+ \text{ for all } r \geq 0 \text{ and}$$

$$\text{all } S \in 2^N - (N \cup \emptyset)$$

equivalently

$$[e_S(y_0) - ru(S)]^+ = [e_S(y_0)]^+ \text{ for all } r \geq 0 \text{ and}$$

$$S \in 2^N - (N \cup \emptyset)$$

Therefore

$$u(S) \geq 0 \text{ for all } S \text{ such that } e_S(y_0) \leq 0$$

$$u(S) = 0 \text{ for all } S \text{ such that } e_S(y_0) > 0$$

or in any case

$$u(S) \geq 0 \text{ for all } S \in 2^N - (N \cup \emptyset)$$

This combined with $u(N) = 0$ implies $u \equiv 0$ contradicting the previous assumption that $u \neq 0$. #

We complete this section with a characterization of the collection of dissatisfied coalitions at a k -centroid

In [15], Shapley defined the notion of a balanced collection of sets. Given a collection \mathcal{J} of subsets S of a set N , \mathcal{J} is said to be balanced if there exists $\{c_S > 0 | S \in \mathcal{J}\}$ such that $\sum c_S a^S = a^N$

where $(a^S)_i = \begin{cases} 1 & i \in S \\ 0 & i \notin S \end{cases}$. Shapley noted that a balanced collection could be considered a generalized partition.

Proposition II.7: Let \mathcal{J} be a collection of subsets S of a set N . Then

\mathcal{J} is balanced if and only if there exist $\{d_S > 0 | S \in \mathcal{J}\}$

such that $\sum_{S \in \mathcal{J}} d_S a^S = 0$.

Proof: \mathcal{J} is balanced if and only if there exists $\{c_S > 0 \mid S \in \mathcal{J}\}$ such that $\sum_{\mathcal{J}} c_S a^S = a^N$. Note that $\sum_{\mathcal{J}} c_S a^S$ can never be 0 whenever the family \mathcal{J} is nonempty. Thus $\mathcal{J} \neq \emptyset$ is balanced if and only if there exists $\{c_S > 0 \mid S \in \mathcal{J}\}$ such that

$$\sum_{\mathcal{J}} c_S a^S - \left\langle \sum_{\mathcal{J}} c_S a^S, \frac{a^N}{\sqrt{|N|}} \right\rangle \frac{a^N}{\sqrt{|N|}} = 0.$$

$$\text{But } \sum_{\mathcal{J}} c_S a^S - \left\langle \sum_{\mathcal{J}} c_S a^S, \frac{a^N}{\sqrt{|N|}} \right\rangle \frac{a^N}{\sqrt{|N|}}$$

$$= \sum_{\mathcal{J}} c_S \left(a^S - \langle a^S, a^N \rangle \frac{a^N}{|N|} \right)$$

$$= \sum_{\mathcal{J}} c_S \left(a^S - \frac{|S|}{|N|} a^N \right) = \sum_{\mathcal{J}} c_S \frac{1}{||A^S||^2} A^S.$$

So, by putting $d_S = \frac{c_S}{||A^S||^2}$, we can see that \mathcal{J} is balanced if

and only if there exists $\{d_S > 0 \mid S \in \mathcal{J}\}$ such that $\sum_{\mathcal{J}} d_S A^S = 0.$

Corollary II.8: The collection of dissatisfied coalitions at a k -centroid is balanced.

Proof: In the above proposition, put $d_S = k_S [e_S(x)]^+$ for all dissatisfied S , where x is any k -centroid of v .

5. Convergence

Let us restate the convergence results of Chapter I in terms of games.

Proposition II.9: Let v be a game and $\{k_s\}$ any set of coalitional weights. For any $x_0 \in E(v)$, there exists a solution $\gamma(t, x_0, vk)$, continuous in t such that

$$\lim_{t \rightarrow \infty} \gamma(t, x_0, v, k), \text{ exists and is a } k\text{-centroid of } v.$$

As before, denote this limit point by $\gamma(\infty, x_0, v, k)$. Thus bargaining as described above where dissatisfied coalitions extract payment from complementary coalitions results in a redistribution of the total payoff $v(N)$ over time in such a way that, as $t \rightarrow \infty$, the distribution converges to one which minimizes total dissatisfaction. Recall that this convergence is such that $\gamma(t, x_0, v, k)$ approaches all k -centroids of v simultaneously as t increases, and also follows the negative gradient of $\Phi'(x, v, k)$. $\nabla \Phi(x, v, k)$, on the other hand, does not, in general, lie in the hyperplane $\{x | x(N) = 0\}$ as does $\nabla \Phi'$. However, a simple computation demonstrates that for any $x \in E(v)$, $\nabla \Phi'(x, v, k)$ is the projection of $\nabla \Phi(x, v, k)$ onto $\{x | x(N) = 0\}$. In this sense, $\gamma(t, x_0, v, k)$ follows the negative gradient of the total dissatisfaction function. Therefore, while this type of behavior may not result in a "shortest route" in Euclidean distance to a k -centroid, which would translate into "minimum total exchange of payoff", it is optimal in the sense that it produces, at any x , a rate of redistribution which is most effective in reducing total dissatisfaction locally, i.e., in small enough neighborhoods of x . Hence, players employing an efficient bargaining system arrive at a global optimum by acting in a locally optimal manner.

Also, with respect to efficient bargaining systems, it is clear that, individually, each k -centroid of v is a stable point and, if we

define a set to be asymptotically stable if all points of the set are stable, and if all trajectories converge to a point of the set then $C(v,k)$ is asymptotically stable. In particular, the core, if nonempty, is asymptotically stable with respect to this system.

§6. Cocentroids

In the manner of Chapter I, we will define k -cocentroids of a game v . While it may appear in the model we are using that cocentroids are highly nonoptimal and therefore perhaps uninteresting, it will become evident that, in some cases, these "worst" points will bear an important relationship to the optimal centroids and certain "fair" points.

Given a game v , coalitional weights $\{k_S\}$, and some efficient point x , we will call

$$k_S ||A^S||^2 ([-e_S(x)]^+)^2$$

the "satisfaction" of S at x , and we will also call

$$\Psi(x,v,k) = \sum_{S \in N} k_S ||A^S||^2 ([-e_S(x)]^+)^2$$

the "total satisfaction" at x . $\{S | e_S(x) \leq 0\}$ will be the set of "satisfied coalitions" at x . The set of " k -cocentroids of v ", $CC(v,k)$ is the set

$$\{x \in E(v) | \Psi(x,v,k) = \inf_{y \in E(v)} \Psi(y,v,k)\}.$$

Although cocentroids are those points which minimize total satisfaction, it does not necessarily follow that total dissatisfaction is large over $CC(v,k)$, since we will see in Section §12 of this Chapter that $C(v,k)$ and $CC(v,k)$ can, under certain conditions, coincide.

Clearly, it is possible to display a system of differential equations

$$(II.c) \quad \dot{x} = - \sum_{S \neq N} k_S [-e_S(x)]^+ A^S,$$

the solutions of which, for any efficient initial point, converge to a k -cocentroid of v . A behavior for such a system would be one in which satisfied coalitions are donating payoffs to their complements at a rate proportional to $k_S [-e_S(x)]^+$ while dissatisfied coalitions are silent, achieving, in the limit, a final distribution which minimizes total satisfaction.

An argument entirely similar to that of Proposition II.6 yields

Proposition II.10: $CC(v, k)$ is a nonempty closed polytope.

It is also clear that $e_S(x)$ is constant over $CC(v, k)$ for all satisfied coalitions S .

§7. Continuity

Let $x_0 \in E(v)$, and let $\gamma(t, x_0, v, k)$ be a solution of System (II.b). We have already shown that as $t \rightarrow \infty$, this solution converges to a point $\gamma(\infty, x_0, v, k) \in C(v, k)$. Propositions I.16 and I.18 establish the following results for games.

Proposition II.11: For any game v and any set of coalitional weights $\{k_S\}$, $\gamma(\infty, x_0, v, k)$ is continuous in x_0 over $E(v)$.

Proposition II.12: Let

$$W = \{v \mid \text{core } v \neq \emptyset\},$$

then $\gamma(\infty, x_0, v, k)$ is continuous in (x_0, v, k) over

$$X = \{(x, v, k) \mid x \in E(v), v \in W, k \in \mathbb{R}_+^{2^n-2}\}$$

Proof: Note the added restriction that $x_0 \in E(v)$, and also $\text{core}(v) \subset E(v)$. Thus the proof of Proposition I.18 must be modified slightly using the observation that if $\{v^n\} \rightarrow v$ then $\text{core}(v^n) \rightarrow \text{core } v$ from Danzig, et al. [5] and also, despite $E(v^n)$ not being compact, $\mu(E(v^n), E(v)) \rightarrow 0$. Then the proof essentially goes as that for Proposition I.18. #

§8. Allocation Systems and Nuclei

Suppose for a game v and set of coalitional weights $\{k_S\}$, we were to combine the two systems (II.b) and (II.c), much as we did in Chapter I, to obtain

$$(II.e) \quad \hat{x} = \sum_{S \neq N} k_S (e_S(x)) A^S$$

such a system will be called an "efficient allocation system". The behavior it represents is straightforward: satisfied coalitions are giving to their complements their excess payoff while dissatisfied coalitions are extracting payment from their complements. Note that in general a coalition S being dissatisfied does not necessarily imply that $N - S$ is satisfied or conversely. However, in the case that $\text{core}(v) \neq \emptyset$, it is true that $e_S(x) > 0$ implies $e_{N-S}(x) < 0$ (for proof, see Wang [30], Lemma 2.1) so that dissatisfied coalitions are always demanding payment from coalitions who "can afford it".

We define $N(v, k)$ to be the set of k -nuclei of v which is the set

$$\{x \in E(v) \mid \theta(x, v, k) = \inf_{y \in E(v)} \theta(y, v, k)\}$$

where

$$\theta(x, v, k) = \sum_{S \neq N} k_S \|A^S\|^2 (e_S(x))^2$$

We will call $\theta(x, v, k)$ the total "disorder" of the game at x , and it is clear that total disorder is the sum of total satisfaction and total dissatisfaction. A k -nucleus of v is therefore a point which minimizes total disorder. The k -nucleus is related to a class of "convex preemptive nuclei" proposed by Charne's and Kortanek [5].

Proposition II.13: Let $\zeta(t, x_0, v, k)$ be a solution of System (II.e) with efficient initial point x_0 . Then as $t \rightarrow \infty$ $\zeta(t, x_0, v, k)$ converges to a k -nucleus of v .

Proof: This follows from Corollary I.19. #

Further it should be apparent that total disorder will decrease along solutions of (II.e).

From Corollary I.20, $e_S(x)$ is constant as x ranges over $N(v, k)$ for all $S \neq N$. Therefore:

Proposition II.14: For any game v , and any of coalitional weights $\{k_S\}$, $N(v, k)$ contains a unique point.

Proof: Let both x and y be in $N(v, k)$. Then $e_S(x) = e_S(y)$ for all $S \neq N$ so in particular $e_{\{i\}}(x) = e_{\{i\}}(y)$, $i = 1, \dots, n$. Hence $x = y$. #

By Proposition I.23, we can state the following.

Proposition II.15: Let $x \in E(v)$. Then x being in any two of $C(v,k)$, $CC(v,k)$, and $N(v,k)$ implies x is in the third.

So if x minimizes both total dissatisfaction and total disorder, then x must minimize total satisfaction also.

The sets $C(v,k)$, $CC(v,k)$ and $N(v,k)$ can also be characterized by the tangency of solutions of the Systems (II.b), (II.c), and (II.e) as in Proposition I.24. Such a result gives information on the various behaviors of the players at payoffs in these sets. For instance, players with a distribution $x \in CC(v,k)$, i.e., where total satisfaction is minimized, will act in the same way, instantaneously at x , as if to arrive ultimately at $C(v,k)$ or $N(v,k)$, although the trajectories will diverge as soon as they leave $CC(v,k)$.

§9. Coalitional Weights

Some possible interpretations of the coalitional weights have been already mentioned, and it is not difficult to list more, e.g., k_S could be the probability of coalition S forming, giving the term $k_S |A^S| ([e_S(x)]^+)^2$ a possible interpretation of "expelled dissatisfaction." Similar interpretations have been used by other writers with respect to other weighting schemas. See, for example, Owen [18]. Unfortunately, notions such as "influence" or "sensitivity" or "probability of a coalition forming" are difficult to quantify. Suppose instead, we

view the coalitional weights as a mechanism whereby we can impose some concept of "fairness" on the bargaining. In this section, this idea of fairness will be made rigorous by axioms, not unlike those in the definition of the Shapley value. Necessary and sufficient conditions on the coalitional weights will be deduced in order for these axioms to hold. In this manner, we will obtain a set of "universal" coalitional weights, i.e., weights which are not functions of the game v . Note that this has tacitly been assumed in the previous sections of this work although it would be of interest to see what sort of results one could derive if k_S were a function of v , e.g., if $k_S \approx v(S)$. Such an analysis will not be undertaken here.

Let $\dot{x} = D(x, v)$ be either (II.b) or (II.e). (The result also holds for System (II.c), but this fact is not of much interest.) We would like to enforce the notion that bargaining depends only on the characteristic function, rather than on the labelling of the players. We can do that with the following axiom. Recall that for $x \in R^n$, we denote by πx the vector in R^n such that $(\pi x)_i = x_{\pi_i}$, $i = 1, \dots, n$.

A. If π is any permutation on $\{1, \dots, n\}$, then we require

$$D(\pi x, \pi v) = \pi D(x, v)$$

for all n -person games v and all efficient points x .

Proposition II.16: A necessary and sufficient condition for Axiom A to hold is that $k_S = k_T$ whenever $|S| = |T|$. Such a set of coalitional weights will be denoted $\{k_{|S|}\}$.

Proof: We will prove this result for efficient bargaining systems only.

The proof for efficient allocation systems is entirely analogous.

Necessity: Pick any $\gamma \in R^N$, and $S_0 \neq N$. Let v be the game given by $v(S) = \gamma(S)$ for all $S \neq S_0$ and $v(S_0) = \gamma(S_0) + \alpha$, for some $\alpha > 0$. Let π be any permutation on $\{1, \dots, n\}$, then

$$D(\gamma, v) = \sum_{S \neq N} k_S [v(S) - \gamma(S)]^+ A^S = (k_{S_0} \cdot \alpha) A^{S_0}$$

$$D(\pi\gamma, \pi v) = \sum_{T \neq N} k_T [\pi v(T) - \pi\gamma(T)]^+ A^T.$$

The only non-zero term in this latter sum is for $\pi T = S_0$ or $T = \pi^{-1}S_0$, i.e.,

$$D(\pi\gamma, \pi v) = \left(k_{\pi^{-1}S_0} \cdot \alpha \right) A^{\pi^{-1}S_0}.$$

Note that $\pi^{-1}A^{\pi^{-1}S_0} = A^{S_0}$, so if Axiom A is to hold,

$k_{\pi^{-1}S_0} = k_{S_0}$. Observe that for all permutations π ,

$|\pi^{-1}S_0| = |S_0|$. Thus since S_0 was arbitrary, necessity must follow.

Sufficiency: Let v be any game, and x any point in $E(v)$.

Then

$$D(x, v) = \sum_{S \neq N} k_S |S| [v(S) - x(S)]^+ A^S$$

$$D(\pi x, \pi v) = \sum_{T \neq N} k_T |T| [\pi v(T) - \pi x(T)]^+ A^T.$$

In the latter sum let $T = \pi^{-1}S$, so

$$\begin{aligned}
D(\pi x, \pi v) &= \sum_{\pi^{-1}S \neq N} k_{|\pi^{-1}S|} [\pi v(\pi^{-1}S) - \pi x(\pi^{-1}S)]^+ A^{\pi^{-1}S} \\
&= \sum_{\pi^{-1}S \neq N} k_{|S|} [v(S) - x(S)]^+ A^{\pi^{-1}S} \\
&= \sum_{S \neq N} k_{|S|} [v(S) - x(S)]^+ A^{\pi^{-1}S}
\end{aligned}$$

$$\text{so } \pi^{-1}D(\pi x, \pi v) = \sum_{S \neq N} k_{|S|} [v(S) - x(S)]^+ \pi^{-1}A^{\pi^{-1}S} = D(x, v) . \quad \#$$

This result has pleasant consequences for symmetric players. For convenience, let us adopt the following convention: given two players i and j , let us call player i "as powerful as" player j (denote by $i \gg j$ if $v(\{i\}) \geq v(\{j\})$) and for all S containing neither i nor j , $v(S \cup \{i\}) \geq v(S \cup \{j\})$.

Lemma II.17: Given coalitional weights $\{k_{|S|}\}$, if $i \gg j$ and $x \in R^n$ such that $x_i \leq x_j$, then $D_i(x, v) \geq D_j(x, v)$.

Proof: Again, the proof is for efficient bargaining systems only. For allocation systems the proof is similar.

$$\begin{aligned}
D(x, v) &= \sum_{\substack{S \neq N \\ i \notin S \\ j \notin S}} k_{|S|} [e_S(x)]^+ A^S \\
&\quad + k_{|S|+1} [e_{S \cup \{i\}}(x)]^+ A^{S \cup \{i\}} \\
&\quad + k_{|S|+1} [e_{S \cup \{j\}}(x)]^+ A^{S \cup \{j\}} \\
&\quad + k_{|S|+2} [e_{S \cup \{i\} \cup \{j\}}(x)]^+ A^{S \cup \{i\} \cup \{j\}} \\
&\quad + k_2 [e_{\{ij\}}(x)]^+ A^{\{ij\}} + k_1 [e_{\{i\}}(x)]^+ A^{\{i\}} + k_1 [e_{\{j\}}(x)]^+ A^{\{j\}}.
\end{aligned}$$

Therefore

$$\begin{aligned}
 D_i(x,v) - D_j(x,v) &= \sum_{\substack{S \neq N \\ i \notin S \\ j \notin S}} k_{|S|+1} \left\{ [e_{S \cup \{i\}}(x)]^+ \left(\frac{1}{|S|+1} \right) \right. \\
 &\quad - [e_{S \cup \{j\}}(x)]^+ \left(\frac{1}{|N|-|S|-1} \right) - [e_{S \cup \{j\}}(x)]^+ \left(\frac{1}{|S|+1} \right) \\
 &\quad \left. + [e_{S \cup \{i\}}(x)]^+ \left(\frac{1}{|N|-|S|-1} \right) \right\} \\
 &\quad + k_1 [-x_i + v(\{i\})]^+ \left(1 - \frac{1}{|N|} \right) \\
 &\quad - k_1 [-x_j + v(\{j\})]^+ \left(1 - \frac{1}{|N|} \right) \\
 &= \sum_{\substack{S \neq N \\ i \notin S \\ j \notin S}} k_{|S|+1} \left(\frac{1}{|S|+1} + \frac{1}{|N|-|S|-1} \right) ([-x(S) - x_i + v(S \cup \{i\})]^+ \\
 &\quad - [-x(S) - x_j + v(S \cup \{j\})]^+) \\
 &\quad + k_1 \left(1 - \frac{1}{|N|-1} \right) ([-x_i + v(\{i\})]^+ - [-x_j + v(\{j\})]^+).
 \end{aligned}$$

But we assumed $-x_i + v(\{i\}) \geq -x_j + v(\{j\})$

and

$$-x_i + v(S \cup \{i\}) \geq -x_j + v(S \cup \{j\})$$

for all S such that $i \notin S$ and $j \notin S$,

so $D_i(x,v) - D_j(x,v) \geq 0$. #

Proposition II.18: Suppose $i \gg j$ and $x_0 \in E(v)$ such that

$(x_0)_i \geq (x_0)_j$. If $\gamma(t, x_0)$ is a solution of

$\dot{x} = D(x, v)$ with initial point x_0 , then

$$\gamma_i(t, x_0) \geq \gamma_j(t, x_0) \text{ for all } t \geq 0,$$

and in particular $\gamma_i(\infty, x_0) \geq \gamma_j(\infty, x_0)$.

Proof: Suppose that for some $t' < \infty$, $\gamma_i(t', x_0) < \gamma_j(t', x_0)$.

Let $t_0 = \max \{0 \leq t \leq t' \mid \gamma_i(t, x_0) \geq \gamma_j(t, x_0)\}$. Since γ is continuous in t , it follows from the Mean Value Theorem that there exists a t_1 in the open interval (t_0, t') such that

$$\left. \frac{d}{dt} [\gamma_i(t, x_0) - \gamma_j(t, x_0)] \right|_{t=t_1} = D_i(\gamma(t_1, x_0), v) - D_j(\gamma(t_1, x_0), v) < 0.$$

But $\gamma_i(t_1, x_0) < \gamma_j(t_1, x_0)$ by choice of t_0 , so by Lemma II.17,

$$D_i(\gamma(t_1, x_0), v) - D_j(\gamma(t_1, x_0), v) \geq 0. \text{ This contradiction}$$

invalidates the assumption on the existence of t' . #

So, if a player i is as powerful as a player j , and receives at least as much at the outset of bargaining as j , then at no time in bargaining (or allocation) will player i do worse than player j .

Corollary II.19: Given coalitional weights $\{k_{|S|}\}$, if players i and j are symmetric, and $(x_0)_i = (x_0)_j$, then $\gamma_i(t, x_0) = \gamma_j(t, x_0)$ for all $t \geq 0$. In particular $\gamma_i(\infty, x_0) = \gamma_j(\infty, x_0)$.

Thus, Axiom A preserves symmetric payoffs to symmetric players, and, when enforced, results in solutions of efficient bargaining systems or efficient allocation systems which reflect the power of the players as indicated by their marginal effect on coalitional strength.

Now suppose we have a dummy player i , who, at some payoff x_0 , receives $v(\{i\})$. There would not seem to be any reason for i to receive any more or less than $v(\{i\})$ at any future point in the bargaining. This is the essence of Axiom B.

B. For any game v , if i is a dummy player and $x \in E(v)$ where $x_i = v(\{i\})$, then $D_i(x, v) = 0$.

Proposition II.20: A necessary and sufficient condition for Axiom B to hold for efficient bargaining or allocation systems is that for all S such that $i \notin S \neq N - \{i\}$,

$$\frac{k_{S \cup \{i\}}}{|S| + 1} = \frac{k_S}{|N| - |S|}.$$

Proof: Again, we give the proof only for bargaining systems.

Necessity: Pick $\gamma \in \mathbb{R}^N$ and some $S_0 \in 2^N - N$, where $i \notin S_0 \neq N - \{i\}$.

Let v be the game

$$v(S_0) = \gamma(S_0) + \alpha \text{ for some } \alpha > 0$$

$$v(S_0 \cup \{i\}) = \gamma(S_0 \cup \{i\}) + \alpha \text{ and}$$

$$v(S) = \gamma(S) \text{ for all other } S.$$

For B to hold we must have

$$\begin{aligned} 0 = D_i(\gamma, v) &= k_{S_0} [\alpha]^+ A_1^{S_0} + k_{S_0 \cup \{i\}} [\alpha]^+ A_1^{S_0 \cup \{i\}} \\ &= (k_{S_0} \cdot \alpha) \left(\frac{1}{|N| - |S_0|} \right) + (k_{S_0 \cup \{i\}} \cdot \alpha) \left(\frac{1}{|S_0| + 1} \right) \\ \text{so } \frac{k_{S_0}}{|N| - |S_0|} &= \frac{k_{S_0 \cup \{i\}}}{|S_0| + 1}. \end{aligned}$$

But S_0 was arbitrary, and B must hold for all games v , so this part of the proof is complete.

Sufficiency: Let v be any game with dummy player i , $x \in E(v)$ such that $x_i = v(\{i\})$.

Then

$$\begin{aligned}
 D(x, v) = & \sum_{\{S: i \notin S, S \neq N - \{i\}\}} \left\{ k_S [v(S) - x(S)]^+ A^S \right. \\
 & \left. + k_{S \cup \{i\}} [v(S \cup \{i\}) - x(S \cup \{i\})]^+ A^{S \cup \{i\}} \right\} \\
 & + k_{\{i\}} [v(\{i\}) - x_i]^+ A^{\{i\}} \\
 & + k_{N - \{i\}} [v(N - \{i\}) - x(N - \{i\})]^+ A^{N - \{i\}} .
 \end{aligned}$$

Note that since x is efficient and i is a dummy

$$v(N - \{i\}) - x(N - \{i\}) = v(N) - v(\{i\}) - x(N) + x(\{i\}) = 0 ,$$

so that

$$\begin{aligned}
 D_i(x, v) = & \sum_{\substack{\{S | S \neq i, \\ S \neq N - \{i\}\}}} \left\{ -k_S [v(S) - x(S)]^+ \left(\frac{1}{|N| - |S|} \right) \right. \\
 & \left. + k_{S \cup \{i\}} [v(S \cup \{i\}) - x(S) - x_i]^+ \left(\frac{1}{|S| + 1} \right) \right\} \\
 \text{(II.f)} = & \sum_{\substack{\{S | S \neq i, \\ S \neq N - \{i\}\}}} \frac{k_{S \cup \{i\}}}{|S| + 1} \left\{ [v(S) + v(i) - x(S) - x(i)]^+ - [v(S) - x(S)]^+ \right\} .
 \end{aligned}$$

When $x_i = v(\{i\})$, this sum is zero. #

The next proposition give us some indication of how dummies fare along trajectories.

Proposition II.21: Suppose v is a game with dummy i , $x \in E(v)$. Then

$$x_i \geq v(\{i\}) \text{ implies } D_i(x, v) \leq 0$$

$$x_i \leq v(\{i\}) \text{ implies } D_i(x, v) \geq 0 .$$

Proof: This follows directly from Equation (II.f). #

So, along trajectories, the amount received by a dummy will tend to decrease monotonically, if it is more than the dummy's value, or will increase monotonically if it is less.

Corollary II.22: Let $\gamma(t, x_0)$ be a solution to $\dot{x} = D(x, v)$ with initial point x_0 . If i is a dummy and $(x_0)_i = v(\{i\})$, then $\gamma_i(t, x_0) = v(\{i\})$ for all $t \geq 0$. In particular $\gamma_i(\infty, x_0) = v(\{i\})$.

Suppose we wish to have both Axioms A and B hold. Then we can inductively construct the coalitional weights as follows (where we denote k_S by k_α when $|S| = \alpha$):

$$k_1 = w \quad \text{for some } w > 0$$

$$k_2 = w \cdot \frac{2}{|N|-1}$$

$$k_3 = w \cdot \frac{2}{|N|-1} \cdot \frac{3}{|N|-2}$$

clearly

$$k_{|S|} = w \frac{|S|! (|N|-|S|)!}{(|N|-1)!}.$$

If we set $c = \frac{w}{|N|}$ we have

Proposition II.23: A necessary and sufficient condition for Axioms A

and B to hold is that for all $S \neq N$ or \emptyset ,

$$k_S = c \left(\frac{|N|}{|S|} \right)^{-1}, \quad \text{for some } c \neq 0.$$

The constant c only determines the speed of convergence of the solutions, which can be taken into account by a change in the time variable. Therefore the constant c will be omitted henceforth.

§10. The Shapley Value as a k-Nucleus of v

Recall that the Shapley value is an efficient payoff which reflects the symmetry of the game and which gives dummies their marginal values. In light of the above discussion, it is apparent that the Shapley value is an excellent choice as an initial point for many bargaining systems. This is particularly true in those cases where the Shapley value is not a point of $C(v, k)$. Then, by applying the bargaining system with the above coalitional weights, the limit distribution of payoff will be one reflecting the same desirable symmetries and payoffs to dummies as the Shapley value, but with lower total dissatisfaction. Note that this proves the existence of such a point.

The allocation system converges to a point which minimized total entropy. We will now show the relationship between the Shapley value and the k-nucleus of v for the "fair" coalitional weights

$\left\{ \left(\frac{|N|}{|S|} \right) \right\}^{-1}$. We first need the following result of Keane [14],
(Section 7):

Lemma II.24: The Shapley value is the unique efficient point minimizing

$$\sum_{S \neq N} \left(\frac{|N|-2}{|S|-1} \right)^{-1} (e_S(x))^2 \quad \text{subject to}$$

$$x(N) = v(N) .$$

Proposition II.25: The Shapley value $\phi[v]$ is the unique k-nucleus of v , if for all $S \neq N$ or \emptyset

$$k_S = \left(\frac{|N|}{|S|} \right)^{-1} .$$

Proof: This follows immediately from the observation that

$$\left(\frac{|N|}{|S|} \right)^{-1} ||A^S||^2 = \frac{1}{|N|-1} \left(\frac{|N|-2}{|S|-1} \right)^{-1} \quad \text{for all } S, \quad \#$$

Hence, for any efficient initial point, the solutions of an allocation system with coalitional weights $\left\{ \left(\frac{|N|}{|S|} \right)^{-1} \right\}$ converge to the Shapley value, demonstrating that the Shapley value is asymptotically stable with respect to this system.

The difference between the dynamics of the bargaining and allocation systems provides insight into the difference between $C(v,k)$ (or core (v)) and the Shapley value. $C(v,k)$ is, in essence a "greedy" solution concept, since the information about negative excesses is suppressed. Coalitions act only to minimize dissatisfaction, ignoring how much over their values certain coalitions may be receiving at any point. The Shapley value, on the other hand, arises when coalitions seek payoffs as close to their values as possible, with the coalitional weights

$$\left(\frac{|N|}{|S|} \right)^{-1} \quad \text{determining which coalitions must be the closest.}$$

Proposition II.15 yields a condition for the Shapley value to be a centroid.

Proposition II.26: $\phi[v] \in C(v,k)$ for $k = \left(\frac{|N|}{|S|} \right)^{-1}$ if and only if $\phi[v] \in CC(v,k)$.

Suppose $\text{core}(v) \neq \emptyset$ and $\phi[v]$ is in the core. Then it is the unique core point which minimizes total satisfaction. Since the core is compact, however, there is a point which maximizes total satisfaction

over the core. Such a "maximin" point might be of interest to players of an actual game.

§11. The Two-Center of Spinetto

Other choices of the coalitional weights can be justified on the basis of which sets of points become optimal when those weights are used. Spinetto [16] defined the two-center to be the point minimizing.

$$\sum_{S \neq N} (e_S(x))^2 \quad \text{over all } x \in E(v)$$

subject to $x_i \geq 0$ for all i .

Letting $k_S = |A^S|^{-2} = \frac{|S|(|N|-|S|)}{|N|}$, the k -nucleus of v is precisely the two-center whenever the k -nucleus is an imputation. Using this fact, a condition for the two-center to be in $C(v, k)$ or core (v) can be deduced. Note that these weights satisfy the symmetry condition.

§12. Constant Sum Games

Constant sum games are those games for which $v(S) + v(N-S) = v(N)$ for all $S \neq N$. For this class of games, a particular limitation on the coalitional weights yields an interesting relationship among the solutions of the various systems already encountered.

Proposition II.27: Let v be a constant sum game. If $k_S = k_{N-S}$ for all S then there exists a unique point x such that $\{x\} = C(v, k) = CC(v, k) = N(v, k)$.

Furthermore, for any initial point x_0 , the orbits through x_0 for the bargaining and allocation systems (and also System (II.c)) coincide.

Note: If $\gamma(t, x_0)$ is a solution to a system of differential equations, the orbit through x_0 is $\{\gamma(t, x_0) | t \geq 0\}$. Also note that the condition on the coalitional weights in Proposition II.27 is satisfied by $k_S = \left(\frac{|N|}{|S|}\right)^{-1}$ and by $k_S = \|A^S\|^{-2}$, among others.

Proof: For $x \in E(v)$, $v(S) - x(S) = - (v(N-S) - x(N-S))$

$$\text{so} \quad [e_S(x)]^+ = [-e_{N-S}(x)]^+.$$

Hence by the choice of coalitional weights

$$k_S [e_S(x)]^+ = k_{N-S} [-e_{N-S}(x)]^+.$$

But observe, $A^S = -A^{N-S}$

so

$$\begin{aligned} \sum_{S \neq N} k_S [e_S(x)]^+ A^S &= - \sum_{S \neq N} k_{N-S} [-e_{N-S}(x)]^+ A^{N-S} \\ &= - \sum_{S \neq N} k_S [-e_S(x)]^+ A^S. \end{aligned}$$

This shows also that

$$2 \sum_{S \neq N} k_S [e_S(x)]^+ A^S = \sum_{S \neq N} k_S (e_S(x)) A^S.$$

Therefore, if $\gamma(t, x_0, v, k)$ is a solution to

$$\dot{x} = \sum_{S \neq N} k_S [e_S(x)]^+ A^S, \text{ then it is a solution to}$$

$$\dot{x} = - \sum_{S \neq N} k_S [-e_S(x)]^+ A^S \text{ and if } \zeta(t, x_0, v, k) \text{ is a}$$

solution to

$$\dot{x} = \sum_{S \neq N} k_S (e_S(x)) A^S$$

then $\gamma(2t, x_0, v, k) = \zeta(t, x_0, v, k)$. So the orbits coincide. The coincidence of $C(v, k)$, $CC(v, k)$, and $N(v, k)$ follows, or can be seen from the fact that in all three cases, the same function is minimized. #

§13. The Nucleolus as k-Centroid of v

For any $x \in E(v)$, let $\theta(x)$ be the vector in R^{2^n-2} whose components are the excesses $e_S(x)$ arranged in decreasing order. We will define the "nucleolus of the set of efficient points," $v^*(v)$, to be any point of $E(v)$ for which $\theta(x)$ is lexicographically least over the hyperplane $E(v)$. Similarly, "the nucleolus of the game v ," $v(v)$, is generally considered to be that imputation for which $\theta(x)$ is lexicographically least over the set of imputations for v . It has been shown that both $v^*(v)$ and $v(v)$ are unique points (for a further discussion of the nucleolus, see Schmeidler [22] and Kohlberg [15]). Clearly, if $v^*(v)$ is an imputation, then $v^*(v)$ and $v(v)$ coincide.

Proposition II.28: Let v be any game.

- a) If $\text{core}(v) \neq \emptyset$, then $v(v) = v^*(v)$ and $v(v)$ is a k -centroid of v for any choice of coalitional weights.
- b) If $\text{core}(v) = \emptyset$, then there exist coalitional weights $\{k_S\}$ such that $v^*(v)$ is a k -centroid of v .

Proof: Part a) follows directly from the observation that if $\text{core } v \neq \emptyset$, then for any $k \in R_+^{2^n-2}$, $\text{core } v = C(v, k)$ and $v^*(v) \in \text{core}(v)$.

Part b) follows from a minor modification of an argument of Kohlberg [15] which yields the result that the set

$$\mathcal{B} = \{S | e_S(v^*(v))\} > 0$$

is balanced. By Proposition II.7, therefore, there exist positive constants $\{d_S | S \in \mathcal{B}\}$ such that

$$\sum_{S \in \mathcal{B}} d_S A^S = 0$$

let $k_S = \begin{cases} \frac{d_S}{e_S(v^*(v))} & S \in \mathcal{B} \\ \text{any positive value} & S \notin \mathcal{B} \end{cases} .$

Then $\sum_{S \in N} k_S [e_S(v^*(v))]^+ A^S = 0$

proving the result. #

Corollary II.29: Let v be any game. If $v^*(v)$ is an imputation, then $v(v)$ is a k -centroid of v for some set of coalitional weights.

Corollary II.30: Let v be any game. If $v(v)$ is in the interior of the set of imputations for v , then $v(v)$ is a k -centroid of v for some set of coalitional weights.

Proof: If $v^*(v)$ is an imputation then $v^*(v) = v(v)$ and the result follows. If not, then in a neighborhood of $v(v)$ lying in the imputation set, there is a point y on the open line segment $(v^*(v), v(v))$ for which $\theta(y)$ is lexicographically less than $\theta(v(v))$, contradicting the definition of $v(v)$. #

It is not difficult to show that if v is a 0-monotonic game, then $v^*(v)$ is an imputation (see, for example, the proof of Theorem 2.4 in Maschler, et al. [17]). This paper also gives a definition of 0-monotonic games.). Therefore, we have

Corollary II.31: If v is a 0-monotonic game, then $v(v)$ is a k -centroid of v for some set of coalitional weights.

§14. Examples

The first example is a case where the core, the Shapley value, and the k -cocentroid do not coincide.

Example 1: $v(123) = 1$ $v(12) = 7/8$ $v(13) = 3/4$ $v(23) = 3/8$

$$v(1) = v(2) = v(3) = 0$$

$$\text{Core}(v) = (5/8, 1/4, 1/8)$$

$$\text{Shapley value} = (\frac{23}{48}, \frac{14}{48}, \frac{11}{48})$$

$$k\text{-cocentroid of } v = (\frac{18}{40}, \frac{11}{40}, \frac{11}{40}) \text{ for } k_S = \left(\frac{|N|}{|S|} \right)^{-1}.$$

The second example exhibits some solutions to

$$\dot{x} = \sum_{s \in N} k_S [e_S(x)]^+ A^S$$

for $k_S = \left(\frac{|N|}{|S|} \right)^{-1}$. The trajectories are drawn in the set of imputations displayed in barycentric coordinates.

Example 2: Consider the game

$$v(123) = 1 \quad v(12) = 1/3 \quad v(13) = 1/5 \quad v(23) = 1/2$$

$$v(1) = v(2) = v(3) = 0.$$

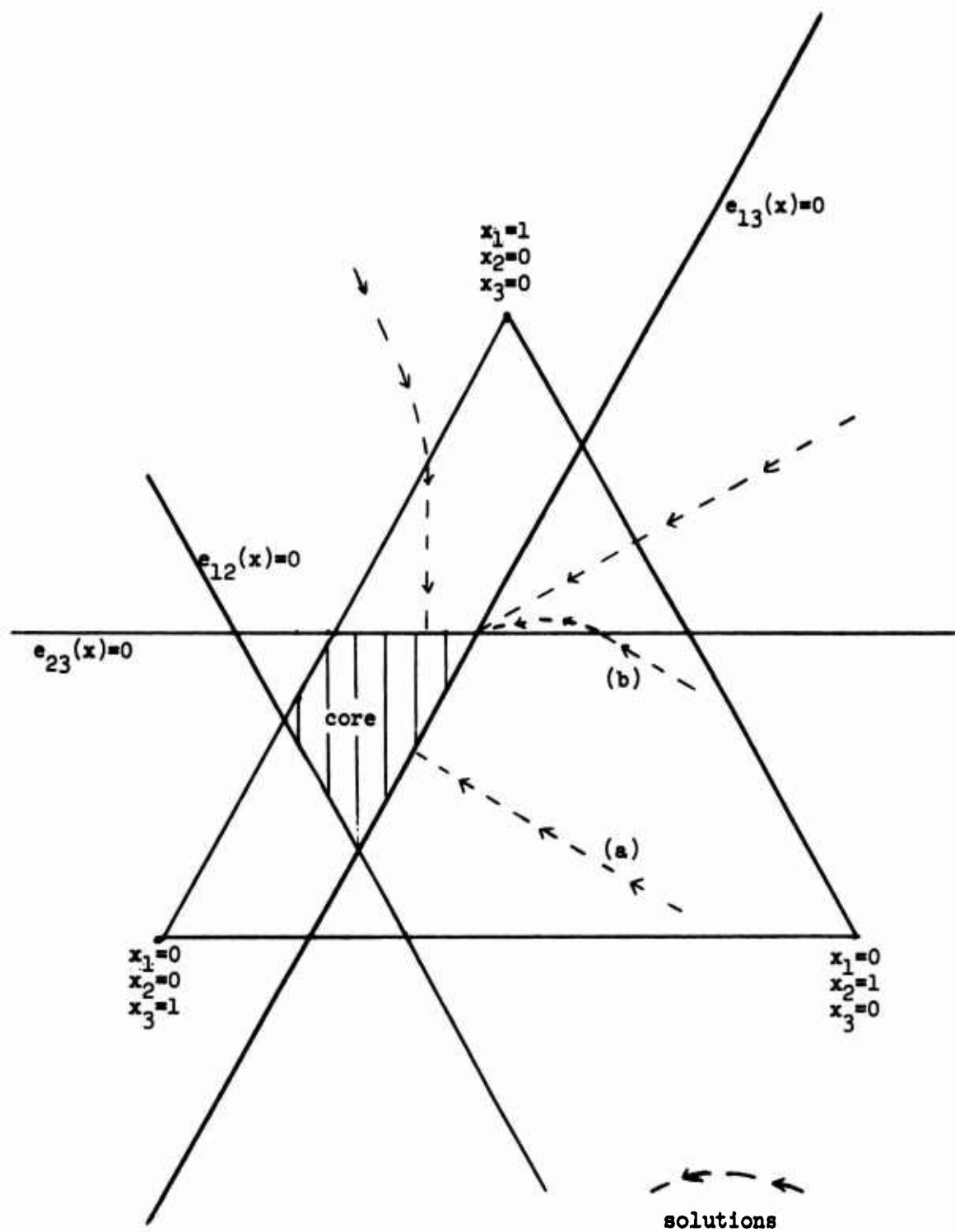


FIGURE 1
For Example 2

Figure 1 depicts several of the orbits of System(II.b) for $k_S = 1$ for all S .

It is not difficult to see what is happening along these trajectories; for instance, along the trajectory marked (a), player 2 is making payment to 1 and 3 equally until core (v) is reached. Along (b), 2 is again making payment to 1 and 3 until coalition {23} finds itself with too little, at which point player 1 must also pay 2 and 3 to correct this imbalance. Over the trajectory, player 2's share decreases, 3's increases and 1's initially increases and then decreases.

§15. Discussion:

We have observed that, in the limit of a bargaining trajectory, some coalitions will be dissatisfied if the core is empty. One might justifiably ask, therefore, why a dissatisfied coalition S should continue to participate in the bargaining when it can guarantee itself $v(S)$ by removing itself from the game. One possible answer is that all of the members of S are members of other coalitions and can expect benefits from those other coalitions provided that they remain in the game. Also, although S may be dissatisfied at some finite time, it can hope for satisfaction in the limit.

In some cases, though, it would seem that the game should logically break up. For instance, suppose at some time t_0 , $\gamma_i(t_0, x_0, v, k) \leq v(\{i\})$ and $\frac{d}{dt} \{\gamma_i(\tau, x_0, v, k)\} \big|_{\tau=t_0} < 0$. If player i had no reason to believe $\gamma_i(\infty, x_0, v, k) \geq v(\{i\})$, then it would be in player i 's interest to accept $v(\{i\})$ and, if possible, remove himself from the game at time

t_0 . Then one could investigate the game played by the rest of the players with initial point $x \in R^{n-1}$ with $x_j = \gamma_j(t_0, x_0, v, k)$ for $j = 1, \dots, i-1$, and $x_j = \gamma_{j+1}(t_0, x_0, v, k)$ $j = i, \dots, n-1$. Thus, in this way, bargaining systems could be used to predict breakup of the game by the removal of the players. By noting for which $t, \gamma_j(t, x_0, v, k) = v(\{j\})$ and is decreasing, it might even be possible to predict in what order the players would leave the game.

We conclude with a few remarks about initial points and efficiency. We have assumed throughout this chapter that the initial point x_0 was efficient and in that way we accounted for $v(N)$. If x_0 is not efficient, however, then solutions to the systems

$$\dot{x} = \sum_{S \in N} k_S \left[\frac{\hat{e}_S(x)}{\|A^S\|} \right]^+ \frac{A^S}{\|A^S\|} \quad \text{and}$$

$$\dot{x} = \sum_{S \in N} k_S [e_S(x)]^+ A^S$$

do not coincide. One could choose one of these systems, (or a variation of it) and produce a trajectory that would redistribute $x_0(N)$ in a way that the unit point would also be nonefficient. If, however, it were desired that the limit point be efficient, it is easy enough to add a term to the first of the above systems which would yield trajectories which tended toward the hyperplane $E(v)$. For example

$$\dot{x} = \sum_{S \in N} k_S \left[\frac{\hat{e}_S(x)}{\|A^S\|} \right]^+ \frac{A^S}{\|A^S\|} + k_N (e_N(x)) \frac{A^N}{\|A^N\|^2}$$

where $A^N = (1, 1, \dots, 1)^T$. It is not difficult to see that if

$\gamma'(t, x_0, v, k)$ is a solution to the above system, then $\gamma'(\infty, x_0, v, k)$

will not only be efficient, but will also be a k -centroid of v as

previously defined. A similar device will work for allocation systems.

A conceptual difficulty arises in going from a non-efficient to an efficient point in that payoff will either have to be manufactured or destroyed in a system which is essentially closed.

In some cases, however, it may be helpful to assume the existence of an external element affecting the game. The next chapter will investigate one such case.

III. Nonefficient Bargaining Systems

§1. A Modified Bargaining System

Suppose one had a situation wherein the players could not directly exchange the commodity under arbitration but had to act instead through a third party, a "referee", who also had the power to extend "credit" to all the coalitions. Then it might be reasonable to expect bargaining trajectories to leave the hyperplane $E(v)$ although it seems natural to require that the limit of any such trajectory be efficient.

We will assume in this section that while the payoff may not be directly transferred among players or coalitions, the excess $e_S(x)$ is still a measure of the satisfaction or dissatisfaction of coalition S at x .

Consider the following system of differential equations, which we will call an "intermediary bargaining system"; the intermediary being the aforementioned referee.

$$(III.a) \quad \dot{x} = k_N e_N(x) \frac{a_N}{\|a_N\|^2} + \sum_{S \neq N} k_S [e_S(x)]^+ \frac{a_S}{\|a_S\|^2}$$

where for all $S \in 2^N - \emptyset$, $k_S > 0$ and $a_S \in R^n$ such that

$$a_i^S = \begin{cases} 1 & \text{for } i \in S \\ 0 & \text{for } i \notin S. \end{cases}$$

We can also define, as in Chapter II, the k -icentroid of v (the "i" stands for "intermediary") to be that point in R^n which minimizes

$$\Xi(x, v, k) = \frac{k_N}{||a^N||^2} (e_N(x))^2 + \sum_{S \neq N} \frac{k_S}{||a^S||^2} ([e_S(x)]^+)^2.$$

Unfortunately, as can be seen from later results, the icentroids of v are, in general, infeasible, i.e., $x(N) > v(N)$ for any icentroid x . Icentroids, and appropriately defined icocentroids and inuclei will not be dealt with at any length.

Consider, however, a game v such that $\text{core}(v) \neq \emptyset$. Since $\Xi(x, v, k) \geq 0$ for all $x \in R^n$ and $\Xi(x, v, k) = 0$ if and only if $x \in \text{core}(v)$, it is clear that the set of k -icentroids of v is precisely $\text{core}(v)$. In view of this fact, therefore, we will, in the remainder of this chapter, only consider games with nonempty cores. The following results are directly out of Chapter I.

Proposition III.1: For any $x_0 \in R^n$, there exists a solution $\gamma(t, x_0, v, k)$ to System (III.a) such that $\lim_{t \rightarrow \infty} \gamma(t, x_0, v, k)$ exists and is a point of $\text{core}(v)$. (As before, denote this point by $\gamma(\infty, x_0, v, k)$).

Proposition III.2: $\gamma(\infty, x_0, v, k)$ is jointly continuous in (x_0, v, k) over $R^n \times W \times R_+^{2^n - 1}$ where W , as before, is $\{v | \text{core}(v) \neq \emptyset\}$.

Note that we do not require x_0 to be efficient, although we will generally assume that it is.

The behavior corresponding to System (III.a) differs from that in Chapter II in that the coalitions do not make demands on each other, but rather on the referee, who pays only to those coalitions with positive excess in proportion to that excess. The vectors $\{a^S\}$

indicate that when the referee makes payment to a coalition, all members of that coalition receive an equal share.

The term $k_N e_N(x) \frac{a_N}{||a_N||^2}$ can be interpreted as follows. If x is a point where $x(N) < v(N)$, the referee will make payment to all the players equally until an efficient point is reached. On the other hand, if x is infeasible, which is likely to happen as the coalitions extract their demands from the referee, then the referee will require that the players pay a "penalty" in proportion to the infeasibility of x . This "bonus-penalty" function of the referee is precisely the mechanism whereby efficient limits are attained. Without it, the coalitions would simply demand sufficient payoff to satisfy them all without regard to the amount actually available.

We will now investigate the trajectories of the intermediary bargaining system.

Lemma III.3: If $x_0 \in E(v)$, then $\gamma(t, x_0, v, k)$ is efficient or infeasible for $0 \leq t \leq \infty$ and if $x_0 \notin \text{core}(v)$, $\gamma(t, x_0, v, k)$ is infeasible in some (positive) neighborhood of $t = 0$.

Proof: $\dot{x}(N) = H(x, v, k) \equiv \sum_{S \neq N} k_S [e_S(x)]^+ \frac{|S|}{||a^S||^2} + k_N (e_N(x)) \frac{|N|}{||a^N||^2}$

$$= \sum_{S \neq N} k_S [e_S(x)]^+ + k_N (e_N(x)).$$

Since $x_0 \in E(v)$, $e_N(x) = 0$. If $x_0 \in \text{core}(v)$, $\gamma(t, x_0, v, k) = x_0$ for all nonnegative t . If $x_0 \notin \text{core}(v)$, then $H(x_0, v, k) > 0$ so by continuity

$$\sum_{i=1}^n \gamma_i(t, x_0, v, k) > v(N) \quad \text{for } t \text{ in some}$$

neighborhood $[0, \epsilon)$ of 0. To see that

$$\sum_{i=1}^n \gamma_i(t, x_0, v, k) \geq v(N) \quad \text{for all } t, \text{ it is enough}$$

to observe that if $x(N) < v(N)$, $H(x, v, k) > 0$. So, if at any time \bar{t} ,

$$\sum_{i=1}^n \gamma_i(\bar{t}, x_0, v, k) < v(N),$$

an application of the Mean Value Theorem would provide the necessary contradiction. #

Lemma III.4: If x' is efficient and $H(x', v, k) = 0$, then $x' \in \text{core}(v)$.

Proof: This follows immediately from the definition of H . #

Suppose $x_0 \in E(v)\text{-core}(v)$. Then $\gamma(t, x_0, v, k)$ can never become efficient for $0 < t < \infty$, since if it did, say at t_0 , then by the continuity of H , it would follow that $H(\gamma(t_0, x_0, v, k), v, k) = 0$, so by Lemma III.4, $\gamma(t_0, x_0, v, k) \in \text{core}(v)$. But uniqueness of trajectories implies that $\gamma(t_0, x_0, v, k)$ is a critical point if and only if x_0 is a critical point, which we assumed was not the case. Therefore we can state the following proposition.

Proposition III.5: Let $x_0 \in E(v)\text{-core}(v)$. Then $\gamma(t, x_0, v, k)$ is infeasible for all finite positive time, and converges to a feasible point as $t \rightarrow \infty$.

Thus the trajectories can be characterized as looping up from and back to the hyperplane $E(v)$. In terms of a behavior, one could say that initially the referee pays to the coalitions faster than

they are penalized, however ultimately the penalty role of the referee dominates.

Note that is possible to set a limit on how infeasible the trajectories become, since

$$d(\gamma(t, x_0, v, k) \mid \text{core}(v)) \leq d(x_0 \mid \text{core}(v)) \quad \text{for all } t \geq 0.$$

Of further interest is the question of which points of the core are reachable through intermediary bargaining starting at noncore efficient points. This, of course, was no problem in Chapter II, where only boundary points of $C(v, k)$ relative to $E(v)$ were reachable. We will show that this is also the case here.

Lemma III.6: Suppose $x_0 \in E(v) - \text{core}(v)$. Then for all $t \geq 0$, there exists a coalition $S \neq N$ such that $e_S(\gamma(t, x_0, v, k)) > 0$.

Proof: Suppose not, then for some $0 < t_0 < \infty$, $e_S(\gamma(t_0, x_0, v, k)) \leq 0$ for all $S \neq N$. Further suppose t_0 is the first time for which this happens. Note that for any $\delta \geq 0$,

$$e_S(\gamma(t_0, x_0, v, k) + \delta a^N) \leq 0 \quad \text{and}$$

$$e_N(\gamma(t_0, x_0, v, k) + \delta a^N) < 0.$$

Therefore, equation (III.a) becomes

$$(III.b) \quad \dot{x} = k_N \{e_N(\gamma(t_0, x_0, v, k) + \delta a^N)\} \frac{a^N}{\|a^N\|^2}.$$

If we integrate equation (III.a) backward in time (i.e., in the direction of decreasing t) from $\gamma(t_0, x_0, v, k)$, it is clear

that the equation of motion will be

$$\frac{dx}{d\tau} = -k_N e_N(x) \frac{a^N}{||a^N||^2} \quad \text{where } \tau = -t.$$

Hence the backward trajectory from $\gamma(t_0, x_0, v, k)$ lies on the ray

$$\gamma(t_0, x_0, v, k) + \delta a^N, \quad \delta \geq 0 \quad \text{and thus for some } t_1 < t_0,$$

$e_S(\gamma(t_1, x_0, v, k)) \leq 0$ for all $S \neq N$, contradiction the assumption that t_0 was the first such time. #

Proposition III.7: For $x_0 \in E(v)\text{-core}(v)$, $\gamma(\infty, x_0, v, k)$ is an element of the boundary of $\text{core}(v)$ (relative to $E(v)$).

Proof: From Lemma III.6, for $n = 1, 2, \dots$, there exists S_n such that $e_{S_n}(\gamma(n, x_0, v, k)) > 0$. Since 2^N is finite, we can, without loss of generality assume that $S_n = S_0$ for all n . Therefore

$$e_{S_0}(\gamma(n, x_0, v, k)) > 0 \quad \text{for all } n \text{ so that}$$

$$e_{S_0}(\gamma(\infty, x_0, v, k)) \geq 0.$$

But $\gamma(\infty, x_0, v, k) \in \text{core}(v)$ implies $e_{S_0}(\gamma(\infty, x_0, v, k)) = 0$. #

§2. Coalitional Weights and Symmetry

As in Chapter II, we wish to investigate possible choices of the coalitional weights. Let $\dot{x} = D(x, v)$ stand for equation (III.a). Let π be any permutation on $\{1, 2, \dots, n\}$ and $\pi v, \pi x$ be as in §9 of Chapter II.

Proposition III.8: A necessary and sufficient condition that $D(\pi x, \pi v)$
 $= \pi D(x, v)$ for all x, v, π , is that $k_S = k_T$
 whenever $|S| = |T|$.

Proof: The proof of this result follows that of Proposition II.16 exactly.

Using these coalition weights, and the notation of Chapter II,
 we obtain these corollaries.

Corollary III.9: If $i \gg j$ and $x_i \leq x_j$, then $D_i(x, v) \geq D_j(x, v)$.

Corollary III.10: If $i \gg j$ and $(x_0)_i \geq (x_0)_j$, then
 $\gamma_i(t, x_0, v, k) \geq \gamma_j(t, x_0, v, k)$ for all $t \geq 0$.

Corollary III.11: If i and j are symmetric, $(x_0)_i = (x_0)_j$, then
 $\gamma_i(t, x_0, v, k) = \gamma_j(t, x_0, v, k)$ for all $t \geq 0$.

Thus, with certain coalitional weights, symmetry is preserved.
 Unfortunately, there is no result analogous to the one for dummies as
 in Chapter II. This is because a dummy player receives payment for
 all the dissatisfied coalitions of which he is a member, but does
 not have to pay a substantial penalty until after the trajectory
 has become infeasible.

§3. Nonsidepayment Games

Because the trajectories of (III.a) become infeasible, and
 because of the existence of the (possibly objectionable) referee,
 the preceding analysis is not suitable for true cooperative games
 with sidepayments. As was indicated in the beginning of this chapter,

this model could apply to a situation where the coalitions could not directly transfer payoff and had to make their transfers through a third party. Under such conditions, a referee would not be inappropriate. Because of the assumed form of the excess, however, this model is not applicable to the general nonsidepayment cooperative game (for a survey of nonsidepayment games, see Aumann [2]). Still, it is felt that this is a beginning in the study of a differential approach to the dynamics of nonsidepayment games. The missing elements in this study are an adequate interpretation of excess, and, more importantly, vectors indicating how the coalitions will split any payment which they receive.

For one limited class of nonsidepayment games, these elements are present and bargaining systems can be constructed. A "hyperplane game", as defined by Billera in [4], consists of a set of players N , coalitions $S \in 2^N$, a characteristic function $v: 2^N \rightarrow \mathbb{R}$, and vectors $g^S \in \mathbb{R}^n$ for all $S \in 2^N$ which are such that for any S , $g_i^S \geq 0$ for $i = 1, \dots, n$ and $g_i^S = 0$ whenever $i \notin S$. These vectors determine "game subsets"

$$V_S = \{x \in \mathbb{R}^n \mid \langle -g^S, x \rangle + v(S) \geq 0\}.$$

The core of such a game is defined to be

$$\{x \in V_N \mid x \notin \text{interior}(V_S) \text{ for all } S \subsetneq N\}.$$

Equivalently, the core is the set of points such that

$$\begin{aligned} \langle -g^S, x \rangle + v(S) &\leq 0 \text{ for all } S, \text{ and} \\ \langle -g^N, x \rangle + v(N) &= 0. \end{aligned}$$

Clearly, a bargaining system of the form:

$$x = \sum_{S \neq N} k_S [\langle -g^S, x \rangle + v(S)] \frac{g^S}{\|g^S\|^2} + k_N (\langle -g^N, x \rangle + v(N)) \frac{g^N}{\|g^N\|^2}$$

will have solutions converging to the core, whenever nonempty. It is possible, by constructing vectors g^S , perpendicular to g^N , to devise a bargaining system for these games whose solutions lie entirely in

$$\{x \mid \langle -g^N, x \rangle + v(N) = 0\}.$$

IV. Some Questions and Conclusions

In [3], Billera exhibited a system of differential equations which has continuous solutions converging to the kernel of a cooperative game with sidepayments. Briefly, his system is:

$$(IV.a) \quad \dot{x} = \sum_{j=1}^n \{d_{ij}(x) - d_{ji}(x)\} \quad \text{for } i = 1, \dots, n$$

where $d_{ij}(x): R^n \rightarrow R$, and is continuous for $i, j = 1, \dots, n$

and $0 \leq d_{ij}(x) \leq k_{ij}(x) \quad \text{for } i, j = 1, \dots, n$

where $k_{ij}(x) = 1/2 [s_{ij}(x) - s_{ji}(x)]^+$,

$$s_{ij}(x) = \begin{cases} \max_T \{e_T(x) \mid i \in T, j \notin T\} & \text{when } i \neq j \\ 0 & \text{when } i = j. \end{cases}$$

In order to compare this system with the systems in this paper, we need some terminology. We will say that a system is "interpersonal" if the behavior it describes is primarily one of interaction among individual players. A system is "intercoalitional" if the interaction is primarily among coalitions, with the individual players participating only inasmuch as they are members of coalitions.

System (IV.a), therefore, is clearly interpersonal since changes in payoff distribution are the result of demands by individual players on the others.

The bargaining and allocation systems of this paper, however, are clearly intercoalitional. Demands and payments are made by coalitions as units, with the individual players playing secondary roles.

It is interesting to observe how information is utilized in the various systems. In all cases, the basis elements of information

available to the players are the excesses. Bargaining systems utilize them to calculate dissatisfaction, allocation systems, disorder, while in (IV.a), the excesses are used to compute the demand individual players make on each other.

While one might be tempted to characterize some solution concepts only as interpersonal or intercoalitional depending on an associated system, there is a danger in that there may be various types of systems converging to any given solution concept. This indicates possible areas of future investigation: do there exist interpersonal systems for the core or the Shapley value and are there intercoalitional systems for the kernel?

Recall that the systems of this work each had an associated convex function. The solutions of a system followed the negative gradient of that function. Therefore, another question which can be asked about System (IV.a) is whether there is some function $\Pi(x)$ such that System (IV.a) can be rewritten

$$\dot{x} = -\nabla \Pi(x).$$

Kalai, Maschler, and Owen [13] have displayed a number of functions which decrease along solutions of (IV.a), but it is unclear whether these functions can be utilized to provide such a $\Pi(x)$ since they are not continuously differentiable. We can note one fact about Π if it exists. Since the kernel of a game is not necessarily connected, if we desire that $\nabla \Pi = 0$ only on the kernel, it follows that Π cannot be convex as are Φ and Θ . Thus Π may have critical points which are local maxima or saddle points, accounting perhaps for the (Lyapunov) instability of some kernel points under (IV.a) (see [13] for instability results).

System (IV.a) is closely associated with Stearns' sequences of discrete transfers [27]. It is believed that similar systems of discrete transfers can be defined which approximate the trajectories of the systems defined in this paper and which converge to the same solution concepts. Wang [30] has described a transfer sequence based on a method of Agmon [1] which converges, when the core is nonempty, to a point of the core. For an efficient initial point x_0 , her sequence is as follows:

$$x_n = \begin{cases} N[x_{n-1}] & \text{if } x_{n-1} \text{ is not efficient} \\ S[x_{n-1}] & \text{if } x_{n-1} \text{ is efficient and} \\ & e_S(x_{n-1}) = \max_T e_T(x_{n-1}) > 0. \\ x_{n-1} & \text{if } x_{n-1} \in \text{core}(v) \end{cases}$$

where
$$N[x_{n-1}] = x_{n-1} + \left\{ \frac{e_N(x_{n-1})}{|N|} \right\} a^N$$

$$S[x_{n-1}] = x_{n-1} + \left\{ \frac{e_S(x_{n-1})}{|S|} \right\} a^S.$$

It turns out that every second step of this sequence yields an infeasible point, requiring the "N-corrections", $N[\cdot]$, to return the sequence to the hyperplane of efficient points. As was indicated in Chapter III, this type of situation is tolerable under certain modifications of the notion of cooperative game, but for a game with true sidepayments, and no outside "referee", this sequence is not entirely intuitively satisfying. It can be seen as a direct result of Agmon [1], that the following sequence of transfers converges to the core, whenever nonempty, and moreover each point in the

sequence is efficient for any efficient initial point x_0 :

$$x_n = \begin{cases} x_{n-1} & \text{if } x_{n-1} \in \text{core}(v) \\ x_{n-1} + e_S(x_{n-1}) A^S & \text{if } x_{n-1} \notin \text{core}(v) \text{ and} \\ & e_S(x_{n-1}) = \max_T e_T(x_{n-1}) > 0. \end{cases}$$

Work remains to be done on other solution concepts and in particular many questions remain concerning the nucleolus. It was shown in Chapter II that under certain conditions, the nucleolus is a k -centroid for some set of coalitional weights. It need not, however, be the unique k -centroid for that set of weights, particularly if the core is non-empty. One can therefore ask whether or not there is a system of differential equations for which the nucleolus is the unique critical point.

Returning to the characterization of the nucleolus as a k -centroid, it would be of great interest to know the properties of the coalitional weights for which this is true, i.e., for precisely which values of $\{k_S\}$ the nucleolus is a k -centroid. Some preliminary investigation indicates that often

$$k_S = \left(\frac{|N|}{|S|} \right)^{-1}$$

is one such set of coalitional weights. If this turns out to be true in more generality, then it may lead to a result indicating under what conditions the nucleolus and the Shapley value coincide.

Investigations should be made into the behavior of actual players, and how they adjust payoffs over time. With information on this question,

it would perhaps be possible to determine whether the behaviors described in this work have analogues in reality.

In Chapter III, some indication was made of the difficulties inherent in the case of nonsidepayment games. More investigation into differential approaches to these games remains to be done.

Finally, a conjecture of interest and importance is that the collection \mathcal{J} of dissatisfied coalitions at a k -centroid of a game is independent of the coalitional weights. If so, \mathcal{J} is a function only of the game and may be of value in determining which coalitions, by unusually large characteristic function values, prevent the existence of a nonempty core.

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